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REPORT

Intergovernmental Liaison
on
Fiscal and Economic Matters

October 1968

Institute of Intergovernmental Relations
Queen's University

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Addendum - August 1968

Foreword by the Minister of Finance

The question of how the federal and provincial governments can consult together more effectively has assumed increasing importance in recent years. This is undoubtedly a reflection of the growing complexity of government activities and the fact that the actions of one level of government inevitably have implications for the actions of the other level in many fields of activity. This is particularly the case for fiscal and economic matters.

The problem was recognized by the Tax Structure Committee in 1964 when the subject "intergovernmental liaison on fiscal and economic matters" was included in its terms of reference. Subsequent federal-provincial discussions determined that the subject was a very broad one, and that it would be desirable to have a comprehensive study carried out. Consideration was given to making this a joint study, sponsored by the federal and provincial governments together, but it was concluded that there would be fewer complications if the Federal Government were to assume sponsorship. The Department of Finance agreed to do this, and entered into an agreement with Queen's University to have the Institute of Intergovernmental Relations at Queen's take on this project. The report from the Institute follows this foreword.

While this was a federally sponsored study, it does represent, in many respects, a cooperative approach to this subject. It was designed, initially, in federal-provincial meetings, and all the governments cooperated with the study team during the research. Because of this background, and because all governments will be interested in studying this report as quickly as possible, the Department of Finance decided it should distribute the report as soon as it could be reproduced.

It is necessary for me to state, therefore, that release of this report cannot be taken to imply acceptance by the Government of Canada of any statements, conclusions or proposals contained in the Report. Similarly, of course, acceptance in any way by provincial governments is not implied. No doubt all governments will want to devote considerable time to studying this Report before they can determine their positions with respect to its content or conclusions.

With this express reservation, I would hope that the Report will provide considerable enlightenment on a difficult subject. It covers a broad field, and comes to some potentially far-reaching

conclusions which I am sure the federal and provincial governments will want to examine together.

I would like, finally, to express a word of appreciation to Queen's University and the Institute of Intergovernmental Relations for taking on this work, and to the members of all governments who cooperated with the study.

E. J. Benson,
Minister of Finance.



(iii)

Institute of Intergovernmental Relations
Queen's University

KINGSTON, ONTARIO

October 16th, 1968

The Hon. E.J. Benson, P.C., M.P.
Minister of Finance and
Receiver General
Ottawa, Ontario

Dear Mr. Minister:

In accordance with the terms of the agreement authorizing the study, I have today placed in the hands of the Director, Federal-Provincial Relations Division, Department of Finance, the report on "Intergovernmental Liaison on Fiscal and Economic Matters".

Yours faithfully,

A handwritten signature in dark ink, appearing to read "R. M. Burns".

RMB:pw

R. M. Burns
Director

INTRODUCTION

In an important sense, most human relationships in modern society are federalistic in their concept and depend for their success upon the effective cross-reference of the component parts, both formally and incidentally. So it is with federal government. We err if we attempt to deal with intergovernmental associations in a vacuum and isolate them as mechanical forms distinct from the conduct of our daily affairs.

But this at times we seem determined to do, regarding governments and their activities as ends in themselves, complete and separate from the lives of the people that they exist to serve. Intergovernmental liaison has no real meaning in such isolation. It only serves when it succeeds in making governments more adequate to their purposes. We are faced with two main problems in developing an effective and rational approach to this aspect of government in a federal state. First, there is that of just how it can best be joined in concept as part of the fundamental governmental purpose, and secondly, how it may best be structured in practical form to meet that end most effectively. Our objective is to raise some questions and to offer some possible answers to the problems of intergovernmental relations within the broad scope of fiscal and economic policy.

This study has its origin in the terms of reference given the Tax Structure Committee by the Federal-Provincial

Conference of October 13, 1964;

- "7. future intergovernmental liaison on fiscal and economic matters."

While some preliminary work had been carried out by officials of the Government of Canada and in certain of the provinces, it was decided that a more comprehensive review of these intergovernmental relationships over the longer term was required. The Institute of Intergovernmental Relations at Queen's University was commissioned by the Government of Canada, with the concurrence of the Provinces, to undertake this task.

The purpose was thus to examine and report on intergovernmental liaison as it is concerned in fiscal and economic matters. These areas include those general fiscal and economic policies and individual measures in which the federal and provincial governments are involved, as well as the fiscal and economic aspects of other government policies directed to particular ends. Within these broad limits the study has been directed at the organization and operation of cooperation employed between governments. It has been concerned with the internal structure of the federal and provincial governments only as this may be essential to the attainment of the main objective of determining the adequacy of the machinery for providing in the intergovernmental process the necessary intelligence in respect of the federal-provincial implications of the policies or programmes being developed and suggesting possible improvements.

1. THE ORIGIN AND FORM OF CANADIAN FEDERALISM

Federalism in the traditional definition of K.C. Wheare involves, as far as possible, a clear-cut division of constitutional authority between the component states or provinces and the national or central government.

"By the federal principle I mean the method of dividing powers so that the general and regional governments are each, within a sphere, coordinate and independent." ¹

Carrying this definition to its logical end, we find ourselves with two distinct political systems operating as sub-divisions of a geographical national whole. But federations in the true classical type of Wheare's definition are not easily found and in its purely constitutional form Canada's government does not meet the federal test. But as in so many things, it is not what exists in strict legal form that counts but how it operates in actual practice. In this respect Canada exhibits most of the characteristics necessary to qualify as a federal state.

The Fathers of Confederation attempted to create a country where the dual federalism of distinct central and regional authority was the guide. Essentially it was a country where each level of government would have its authority. It was one where, in the terms of James Madison,

¹K.C. Wheare, Federal Government, 4th Ed., Oxford, 1963, p. 10.

"The federal and state governments are in fact but different agents and trustees for the people, constituted with different powers, and designed for different purposes."²

In the context of the more individualistic and simple society of those times, it was possible to think of a federal state in this way. But if dual federalism was a satisfactory theory on which to found a nation, it did not take very long for it to become apparent that it was not a concept that could consistently prevail in a developing society.

A number of forces; social, economic, and political, have contributed to throw the various units of government into continuous contact. What first and most constantly has influenced, and continues to influence, the course of events, has been the problem of a fiscal relationship. Very early in Canadian history it became evident that the financial resources of governments rarely coincided with their abilities to spend.

There is no purpose here in adding to the endless debates on what the Fathers of Confederation really intended to accomplish when they agreed to the resolutions at Quebec and London which formed the basis of the British North America Act. But there does seem little doubt that with the example of the Civil War in the United States

²James Madison, The Federalist, No. 46, Everyman Edition, New York: E.P. Dutton and Company, pp. 238-39.

close before them, they intended to develop a structure that had strong elements of the central power which they considered necessary if the country was to be able to cope with the demands of national development and the pressures of divisive forces.

The problem of creating the desired national identity while at the same time protecting the individual interests of the various entities which were part of the new political nationality was a most difficult one. The statements of those who favoured it and those who opposed it clearly show that a strongly centered authority was accepted as the only workable answer to the puzzle. This general concept, subject to certain protections for minority and religious rights, is evident throughout much of the British North America Act.

If we examine the provisions of Sections 91 and 92, the two main operative sections of the Act, this seems reasonably clear. In the context of 1867, the intent was to have the principal locus of fiscal and economic power in the central government.

"The framers of the constitution had large plans for the new Dominion and they proposed a strong national government with ample powers to carry the programme through. The financial terms which gave the Dominion unrestricted taxing powers and the exclusive use of the most important revenue sources of the times (nearly four-fifths of the former provincial revenues were given to the new Dominion Government) is the most significant evidence of the leading role case for the new central government and the

responsibilities which it was expected to assume."³

Section 91 provides what presumably was intended as the primary and residual power, the right of Parliament "to make Laws for the Peace, Order and good Government of Canada." It also specifically allotted a number of powers to the national government. Among them were those for which one would expect a national government to have full responsibility, e.g., postal service, defence, banking, currency and coinage. But as well, there were some clauses which, if interpreted broadly and taken in conjunction with the residual powers, would have extended to the central government an authority which would have brought the true federal nature of the Canadian union into question. These included

"2. The Regulation of Trade and Commerce" and

"3. The Raising of Money by any Mode or System of Taxation."

On the face of it, even at the level of public responsibility of 1867, the provinces were thought of as having a rather restricted role. This is confirmed by the limited financial authority with which they were entrusted. For awhile they were given the power to levy "direct taxation within the province for provincial purposes," in 1867, except for the property tax, this was not considered an

³B. Laskin, Canadian Constitutional Law, 2nd Ed., Toronto, 1960: Carswell and Company, p. 11.

important area of fund-raising. They did, as noted previously, give up about three-quarters of their pre-confederation revenues largely through the surrender of their rights over customs and excise.

It is on the side of expenditure that many of the problems have developed. If we look at the functional responsibilities which were allotted to the provinces we will, in today's terms, get quite a different impression of the extent of the burden from that which we would have derived in the context of the Canada of 1867. Today, many of the functions allotted under Section 92 are of great importance in the public sector and are demanding an increasing share of public funds. With the greater emphasis given to Head 13 of Section 92, "Property and Civil Rights," in decisions of the courts, the trend has been underlined. Provincial/municipal expenditures now make up about 57% of total government expenditure. Something like 80% of public capital expenditure is at this level.

But the situation we face is not going to be solved by a legalistic examination of what the constitution said or attempted to say one hundred years ago about the division of powers and responsibilities. That division has been varied, not only by occasional amendment and by the decisions of the courts, but by the operation of governments and a different understanding of public responsibility in an era of rapidly changing public demand.

The inseparability of so much of the public interest regardless of the jurisdictional responsibility, has been recognized in the institutions of most of the new federations, and they have tried to provide the necessary instruments. That so many of them have failed cannot be attributed to their efforts in this regard. In Canada, we have been increasingly conscious for some years of the mutuality of responsibility in the two constitutional levels of government. And while we have done a great deal in a practical manner to meet many of the situations that have followed from this, we have not taken the formal steps to provide the means of dealing with them. This has not been through lack of consideration of the problems and possible solutions, but it has perhaps been more due to the relative success of the 'ad hoc' approach to the events of the times and a disinclination to superimpose formal structures upon the existing systems of parliamentary government.

Over the years, intergovernmental relationships have assumed a place of very considerable importance in the scheme of things, in areas which are concerned with the functional programmes of government. But in the areas of fiscal and economic policy, the matter of our concern here, less has been accomplished. As the federal-provincial relationship is increasingly one of the fiscal and economic relationships (linguistic and cultural questions not withstanding), this is a serious deficiency which the demands of the present and the future require to be overcome.

2. CONSTITUTIONAL FRAMEWORK

If we are to appreciate the working of the intergovernmental process in our federation, we must understand the structure within which it operates. This is of particular importance in respect of the fiscal and economic relationships with which we are concerned as these are closely involved in the determination of policies which are of influence throughout the entire political system.

The modern federal form of government was conceived in the United States in the context of its presidential structure. Our system is a direct reflection of British parliamentary democracy to which the federal system has had to be adapted.

An essential difference between the parliamentary and presidential systems is in the separation of powers. In the former, the executive is part of and subject to the legislative branch. Although in modern experience this control is more often than not reversed in practice. In this circumstance the executive has become the centre of the political power struggle that goes on within a federation. It is in this political element that some of the important intergovernmental conflicts under the parliamentary system are to be found.

When the British colonies in North America decided to unite in 1867, their familiarity with legislative responsibility within the parliamentary system was reasonably

well established. What the British North America Act tried to do was to graft the essential principles of the divided sovereignty of the federal form onto the basic structure of parliamentary supremacy. In the process, problems were encountered not found in the unitary state.

The difficulties that lie in this concept were expressed by the Royal Commission of Inquiry on Constitutional Problems (Quebec 1956) in the following words:

"...the federative principle has three essential requirements which are so many limitations on the parliamentary principle. It requires not one, but two, orders of government; it attributes sovereignty not to Parliament but to the Constitution, and it hands over the guardianship of that Constitution not primarily to the legislatures but to the courts....In a federation the parliamentary system cannot, therefore, be pushed to its extreme limit; it must accept limitations and bow before the essential requirements of federalism..."¹

Under the Canadian system, there are some contradictions which have important implications for the B.N.A. Act as a true federal constitution. These are in the federal government's control over provincial actions in the powers of disallowance and reservation, the power of federal appointment of the Lieutenant-Governor and the control of appointments to the courts. In the earlier stages and at certain times, these unitary influences have had important effects, but it is fair to say that for our examination of this problem in today's circumstances, they are not now of

¹Vol. II, C. 4, p. 166.

first importance. Canada operates in a true federal form despite the violations of the federal principles which exist in law.

An essential part of any federal constitution is that which is devoted to the division of powers and responsibilities. It is within the boundaries of these divisions that any intergovernmental relationship must operate and, as in the case of all legal boundaries, the more clearly defined and readily recognizable they are, the fewer areas for dispute will be found. One might appropriately apply the old saw "good fences make good neighbours."

"There must be initial definition of the powers and resources of each government in the federation before there can be bargains or agreements among them about what each government is to do or refrain from doing with its respective powers and resources. Co-operation and mutual good will we certainly need, but no amounts of them will do away with the absolute necessity for a primary authoritative distribution of powers and resources in our federal constitutional document." 2

Thus, while we must acknowledge our inability to provide the definitive constitutional answers, we must recognize that liaison can not stand as an answer alone and without a basis of constitutional support.

Nor does it mean that liaison is the only way by which constitutional rigidity can be modified. There are

²W.R. Lederman, "Some Forms and Limitations of Corporate Federalism," Canadian Bar Review, September 1967, p. 409.

in fact two basic ways of effecting changes in the inter-governmental relations and within each of these are a number of variations. Constitutional change is, of course, the fundamental process and it is primarily to supervise such constitutional review that the continuing Constitutional Conference was formed in February 1968. The other is that of a more developed system of intergovernmental relations.

This study is not concerned with the revision of the Canadian Constitution, but there are some processes of constitutional modification which seem to fall to some extent under systems of both legal change and intergovernmental relationship. They should be noted here.

In a number of federal constitutions extensive provision is made for concurrent jurisdiction in important areas of government authority. While this is a useful device, it leaves some problems of its own in that it is essential that there should always be a clear understanding of where the paramount authority lies in case of conflict. Generally this is with the central government and in fact, unless this is so, it is difficult to conceive of the effective use of government power where national interests are involved.

In Canada's case, the area of concurrency is limited. Agriculture and Immigration are both concurrent fields under Section 95 of the B.N.A. Act, with the para-

mount authority in case of a conflict resting with the federal government. In the case of the old age pension amendment, 94A, the opposite is the case and the authority in case of conflict is clearly intended to be with the provincial governments.

Perhaps it is possible to attach too much importance to the actual status of the paramount power. If in practical terms the field is already occupied, the senior authority may find considerable practical difficulty in recovering its constitutional priority. In some cases, e.g. agriculture, the field is sufficiently broad to make dual activity quite feasible, but in more restricted areas conflict can easily follow. Thus, for example, we may question whether Quebec would have as readily entered upon a pension plan of its own had the Government of Canada already been in operational possession of the field.

Another important method by which flexibility can be introduced into the division of powers is by the use of delegation. Delegation in a formal sense is not found in any of the federal constitutions of developed countries. Australia attempted to provide such a procedure as a wartime measure in 1942 but failed to secure sufficient state assent to the necessary constitutional amendment. In Canada, the Royal Commission on Dominion-Provincial Relations strongly urged consideration of delegation

of authority, but no action was taken on its proposal.³ In most of the newer federations of the post-war period, provision has been made for delegation and a substantial degree of flexibility has been achieved in this manner.

Delegation of constitutionally assigned powers can operate in two particular areas. There is first the delegation of legislative authority. Then there is the delegation of administrative responsibility. The first has been rejected by the courts in Canada as an infringement of the constitution itself,⁴ inasmuch as it provides an effective way of amendment which has not been authorized in the formal way required.

But administrative delegation is something else again, and delegation of the administration of the laws of one government to the servants of another is now a generally accepted device which has received the blessing of the courts.⁵ While it may seem to differ only in form and not in operative substance from legislative delegation, it does differ substantially in its ultimate effect upon the political responsibility of Parliament and the legis-

³Report of the Royal Commission on Dominion-Provincial Relations, 1940, Book II, Queen's Printer, p. 72.

⁴A.G. N.S. v. A.G. Canada (1950), 4 D.L.R., p. 369.

⁵P.E.I. Potato Marketing Board v. H.B. Wills, Inc. and A.G. for Canada, (1952) 4 D.L.R., p. 146.

latures. Administrative delegation, if properly applied, can form the basis of much needed flexibility in a constitution without jeopardizing the legislative responsibility.

To refer again to Dean Lederman,

"Here we are often concerned with the application of laws the substance of which has already been determined in the proper legislative forum under the existing distribution of powers - Canadian Parliament or provincial legislature as the case may be....Delegation at this administrative level is a proper and useful division of labour in government and does not threaten the situs of or the accountability for primary legislative discretions under our federal system." ⁶

However the fact of possession may cause some political problems for the delegator should he later wish to recover his powers, regardless of the law.

Changes may also be effected through decisions of the courts. But judicial decisions, unless they tend towards the United States Supreme Court's attitude to its role as an interpreter of social change, can only tell us what the judges believe the words of the constitution say. This does not always lead us in the direction of necessary solutions. Thus judicial decisions, while instruments of change, are not reliable instruments of intergovernmental flexibility.

While it was possible in quieter and more leisurely times to accept the constraints on governmental change in-

⁶W.R. Lederman, op. cit., p. 427.

volving jurisdictional responsibility, as our society becomes more complex and the demands on government more pressing there has been a growing tendency to modify formal legal methods by pragmatic and political approaches. As Laskin has pointed out,

"...from the late thirties on, the political disposition appeared to be to rely on constitutional amendment for effective changes, and failing that, to seek to reconcile the difficulties of divided jurisdiction through administrative co-operation which would permit unified action while leaving existing judicially-declared limits of constitutional authority undisturbed. Clearly enough, political federation has been for many years much more dominant than legal federation in this country." ⁷

The pragmatism of the present day seems to have supplemented the legalistic instincts of an earlier period.

Under the conditions that have existed in the public sectors for a good many years, some greater flexibility than is provided by formal traditional processes is obviously called for. But at the same time, unless this greater flexibility is disciplined by some formal restraints on political action, the rule of law on which our society is based can very rapidly become the rule of man, subject to the pressures of political aims and ambitions. As J.A. Corry noted some years ago,

⁷Mr. Justice Bora Laskin, Canadian Bar Review, Sept. 1967, p. 396.

"The party system will, at least, give co-operative federalism some anxious moments." ⁸

And it is not the party system alone that will cause the trouble.

The situation we face is this. Our need is a large and complex federation requiring a flexibility to supplement the formal legal base. In seeking this flexibility, we must seriously examine the implications and the end results of the means that we adopt. The federal form is difficult enough to operate when the basic rules of the game are clearly set out and accepted. But when these basic rules are no longer applicable and must be discarded, it is not enough to invent some flexible and often temporary ground rules that differ in each situation and are dependent for their form and interpretation on the individual participants at some particular point in time.

Under the present constitutional framework, much of the intergovernmental relationship depends upon quite informal arrangements with no foundation in the written constitution or in statutes. To be more specific, the principal instruments of co-operation such as the conference of first ministers (the Federal-Provincial Conference), ministerial committees, the Tax Structure Committee and most, although not all, committees on an official level,

⁸J.A. Corry, in Problems of Modern Government, R.M. Dawson (ed.), Toronto: University of Toronto Press, 1941, p. 83.

have no existence in the strict legal sense and have no legal collective power nor responsibility to commit anyone concerned on anything. Perhaps it is not desirable that they should, but we should be aware of this fact. That the system of intergovernmental liaison works as well as it does in the circumstances of the many difficult problems of intergovernmental relationships continuously to be faced, is a tribute to our flexibility, but we are in the position of often having to improvise solutions in a hurry when a more formal and established process might provide a better way.

This informal attire in which we have dressed ourselves may have been that which was most suitable to the times. But like so many informal attitudes, it tends to lack the discipline which is often necessary where a fundamental structuring of a situation is called for. This lack of discipline is discernible in two aspects of our present mode of operation. First, lacking any constitutional or statutory guidelines, there is a strong tendency for the machinery of communication and negotiation to proliferate without effective planning and without organized purpose. The one hundred and seventy or so existing federal-provincial committees etc. should be evidence enough of this. Secondly, the lack of this formal base lends impetus to any momentum which is gathered by one jurisdiction as against the other. To illustrate; in periods where the province tends to dominate, there would appear to be an

acceleration of the drive for provincial power related more to the direction of the movement than to the inherent needs of the country, and vice versa. The pendulum keeps swinging in one direction by its own momentum and will only be reversed by some important change in circumstances.

If this is the situation, how can we make our federalism appropriate to the society in which it operates and the problems that it must solve? In this study, we are seeking to find whether or not some more suitable basis can be found for fiscal and economic liaison than that which is inherent in the present structure. The alternative of clearly defined and distinct division of powers and responsibilities, federal and provincial, while in many respects a most desirable one, is not one that is likely to be fully available to us, given the present situation of growing public activity at all levels of government.

Regardless, we must not assume that because we can't have the whole loaf, we should have no part of the bread at all. What we must strive for is the better part of the alternatives from which we can make a choice.

In the article by Dean Lederman to which we have previously referred, this question is discussed:

"What is the characteristic first principle of a federal constitution? It is an original distribution by subjects of primary legislative powers between provincial or state governments on the one hand and a central government on the other. It means the territorial sub-division of the country to give a number of states or provinces, and also an original distribution

by subjects of legislative powers between the central government in respect of the whole national territory on the one hand and the several sub-regional governments for their respective fractions of the national territory on the other hand. This division of law-making powers by territorial sub-divisions and subjects means that the respective state governments and the central government develop in certain respects a peculiar involvement with and dependence on one another. In Canadian terms this leads to certain measures of intergovernmental co-operation in the field of federal-provincial relations." 9

On the basis of this approach, the framework which we are now required to construct would seem to be: first, a clarification and rationalization of the assigned powers and responsibilities of the two quasi-sovereign levels of government, the Dominion and the provinces; and secondly a more organized structure of intergovernmental relationships which would make possible more effective treatment of those many questions which we have not been able to answer properly through the assignment of powers. The recognition of the interdependence of these two factors, one formal, the other operational, is an important part of the solution to the whole problem of intergovernmental co-ordination in the Canadian federation.

9W.R. Lederman, op. cit., p. 413.

3. THE HISTORICAL FRAMEWORK

In the beginning, the Fathers of Confederation attempted to establish a federation in which the powers and responsibilities of the two levels of government would be clear and well-defined. But from very early in the mutual experience, it was evident that a continuing relationship sometimes would be necessary. This was particularly true of those matters that were a product of the financial terms of union. However,

"Such relationships as there were tended to be of a formal character, with the Secretary of State and the Lieutenant-Governor being the channels of communication." ¹

It certainly would be misleading to assert that, in the earlier years of our existence as a federation, the two levels of government operated in completely self-contained compartments, unaffected and unimpressed by each others' interests and problems. But outside of the recurrent pressures for subsidy revisions, there was not that much interaction and the dominance of one jurisdiction or the other tended to ebb and flow more or less independently, with changing circumstances of the times. The community of interest created through involvement in joint programmes had a small beginning prior to World War I and from time to time in the years after that war there were isolated

¹Edgar Gallant, "The Machinery of Intergovernmental Relations I," Canadian Public Administration, Dec. 1965, p. 516.

instances of federal-provincial activity in particular areas. Probably the most notable was in the Old Age Pension Act of 1927, a programme which broke new ground as a continuing field of federal-provincial interest.

The economic crises of the 1930's resulted in a rapid growth in the mutual concerns of the federal and provincial governments. But rather than a workable structure of liaison, there developed

"a very large number of makeshift inter-governmental arrangements to meet the urgent needs of individuals and families." ²

It was largely a question of specific problems being dealt with between Canada and the provincial governments concerned.

But it was really the new ideas of the post-war reconstruction period, particularly the growing involvement of the central government in areas of provincial constitutional authority, that led to greater interest in the form of collective bargaining that is the intergovernmental relationship. This was a reflection of the broad overlapping of interests brought to a head by the economic and social problems of depression and war and the new attitudes towards approaches to solution in the post-war world.

²D.V. Smiley, Conditional Grants and Canadian Federalism, Canadian Tax Foundation, Toronto, 1963, p. 3.

An examination of the course of development of inter-governmental liaison in Canada (and in other older federations such as the United States and Australia) supports the view that as the area of governmental intervention in society has broadened, so has that of the mutuality of interests. There have developed of necessity, practical methods, some continuing and some transitory, to deal with particular problems. Thus we find that events often have tended to create their own responses. The developments in a great majority of cases have not been part of a pre-arranged and recognized approach. Consequently they have been concerned with particular rather than with broad objectives.

In the field of liaison in fiscal and economic matters where broad areas of public policy are involved, progress has been less rapid. While we may wonder at our inability to recognize the importance of co-operation in these important matters in a practical manner, we should really not be too surprised that it is so. This hesitancy can to a considerable extent be attributed to the fact that the broader field embraces much that is fundamental in political life. There is an understandable reluctance on the parts of those in power, whether federal or provincial, to accept any approach which may in a substantial way infringe upon and limit the exercise of political authority. But events forced the recognition of the cross-

flow of interests between the two levels of government, national or provincial, and made some more active recognition of the demands of modern federalism necessary.

For the purpose of our basic interest in the liaison process in the field of fiscal and economic policy as distinct from purely financial and programmatic matters, we can place the first direct acknowledgement of the need for organized and continuing co-operation in the broader areas at the 1935 Dominion-Provincial Conference. This conference was divided into a number of sub-committees or sub-conferences. That of our particular interest was concerned with financial questions. After detailed discussion of the fiscal relationships of Canada and the provinces, the sub-conference concluded:

"...that the diversity and importance of the problems are such that the sub-conference could not expect to reach unanimous decision in the course of three or four days discussion...a permanent committee should be established consisting of the Dominion Minister of Finance and the Treasurer of each Province." ³

Presumably events overtook the good intentions of this conference for no more is heard of any such approach for a number of years. The problems of the depression and unemployment had led to the examination of the financial affairs of the prairie provinces by the Bank of Canada and to the appointment of the Purvis Commission on Unemployment. The

³Proceedings, Dominion-Provincial Conference 1935, Ottawa: King's Printer, p. 45.

appointment of the Royal Commission on Dominion-Provincial Relations took place in 1937. The proposals of 1935 thus in a sense became sub judice.

It is unfortunate that events did intervene, even though the Royal Commission made recommendations along similar lines. There is no doubt that at this conference there was the beginning of an understanding of the essential nature of liaison in fiscal and economic matters which had hitherto been noticeably lacking. As the Prime Minister (Mr. MacKenzie King) said in his opening remarks,

"At the present conference we can examine the underlying questions and provide machinery for their combined study and treatment. In this manner their final satisfactory disposition can be assured at subsequent conferences.

This arrangement of continuity and permanence is necessary because co-operation between the Dominion and the Provinces is too vital a matter to be left entirely for intermittent conferences and correspondence between governments.

Our secretarial arrangements and our proposed organization are based upon the desire to have permanence and continuity." ⁴

The Royal Commission on Dominion-Provincial Relations, aided by representatives from some of the provinces and by some private organizations, came to much the same conclusions as had Mr. King. It noted that,

⁴ Ibid., p. 9.

"It is imperative that means be found for promoting co-operation between the Dominion and the Provinces, which is so essential to efficiency and economy in administration under modern conditions." ⁵

The commissioners saw the need of more effective methods of intergovernmental co-operation as the logical alternative, or perhaps more truly as a supplement, to the centralization of fiscal control which they regarded as an important element in the necessary efficiency and uniformity in the governmental system in Canada. Unfortunately, events intervened again for even though the report itself, at least in its financial aspects, was not acceptable to several of the provinces, the liaison recommendations might have gained foothold.

The war years did nothing to decrease the widely held belief in the value of a strong central control and authority in the economy and at the 1945 Conference on Reconstruction, the matter again received the attention of the federal and provincial governments. At this time Mr. King referred to the problem of the Dominion-Provincial Relations in the post-war world:

"The federal government is not seeking to weaken the provinces, to centralize all the functions of government, to subordinate one government to another or to expand one government at the expense of others. Our aim is to place the Dominion and every Province in a position to discharge effec-

⁵Report of the Royal Commission on Dominion-Provincial Relations, Bk. II, C.V., Ottawa: King's Printer, 1940, p. 68.

tively and independently its appropriate functions. In other words, we believe that the sure road of Dominion-Provincial co-operation lies in the achievement in their own sphere of genuine autonomy for the provinces. By genuine autonomy, I mean effective financial independence, not only for the wealthier provinces but also for those less favourably situated.

We believe that once the provinces have reasonable financial security, it will be much easier for them to co-operate with the Dominion in the furtherance of policies which neither can bring into effect successfully without the help of the other.

To put it very briefly, we regard autonomy and co-operation as essential means of achieving satisfactory Dominion-Provincial relations." 6

Here again we see the emphasis on the importance of the fiscal element in intergovernmental liaison. And if the good intentions expressed by the Prime Minister were not as clearly reflected in the federal proposals as one might have expected from the statement itself, nevertheless there was a renewed recognition of the reality of the problem, even if somewhat in the abstract.

Under the circumstances of the growth of centralized authority, it is not surprising that the most forthright reaction to Dominion proposals came from a large and wealthy province. Premier Drew of Ontario took a leading part in advocating a more resolute approach to inter-governmental liaison apparently with the goal of a more

⁶Proceedings, Dominion-Provincial Conference on Reconstruction, August 1945, Ottawa: King's Printer, p. 5.

effective provincial voice in the partnership. What he seems to have had in mind was a continuing ministerial committee, complete with secretariat, supported by a permanent economic board of officials. Even some degree of executive authority in the timing of public investment and the distribution of fiscal aid was considered for the ministerial group. In its turn the Dominion responded with the idea that the Economic Committee of the conference, if set up on a permanent basis, could serve the function usefully.

The details of the various proposals were never formalized but at least there was an increasing and encouraging note of awareness of future needs. Unfortunately, with the adjournment, sine die, of the conference, in May 1946, the matter was dropped. The initiative that we are still seeking twenty years later was lost.

It is probable that the successful pattern of the five-year tax rental agreements and the supremacy of federal fiscal and economic power in the post-war decade, effectively blunted the edge of necessity and desire for more formal organized intergovernmental co-ordination in policy areas. In any event, very little was done in a practical or a formal sense in the next ten years to develop it, despite the growth of joint programmes with their concomitant interests. These programmes began to proliferate and brought with them many related problems

of fiscal and economic involvement.

Despite the highly centralized nature of the Canadian economy in this period, it is important to note that the concept of the all-pervading central power has never been accepted widely as a continuing principle in Canada, although the degree of practical acquiescence has varied regionally. This is unlike the situation which developed in Australia in the same period and which in certain respects has been the case in both the United States and India.

This lack of consistent acceptance of central authority as the logical motivating force in the federation is a basic characteristic of the problem we have been trying to resolve in the co-ordination of two interests in the common good while at the same time preserving the individual identity of the partners.

It is consequently a bit surprising that the proposals for greater and more formalized liaison were not more strongly pressed and that Premier Drew's proposals did not receive more effective support. One can only assume that the provinces at that time were more concerned with their ability to obtain financial aid from the Dominion than they were in the long-term involvement of an effective intergovernmental relationship.

The federal government's hesitancy was easier to understand for there was good reason to consider that any

such formalization of the liaison process could only weaken the then dominant federal position. There was another factor to be considered in the view held by some independent scholars and by certain politicians. This was that any strongly-based institutions of liaison could conceivably compromise and weaken the power of existing parliamentary institutions of government. Mr. King's remarks at the 1935 conference still represent the best expression of this attitude:

"A Dominion-Provincial Conference is neither cabinet nor a parliament. It is an institution which enables representatives of the Government of Canada and the governments of the Provinces of Canada, to confer together and exchange information and opinions and formulate proposals in respect to Dominion-Provincial co-operation, which can be presented to the governments concerned and to the Parliament of Canada and the legislatures of the Provinces." 7

Although the governments failed to respond to the need for effective liaison machinery which they all acknowledged, it would be wrong to conclude that the business of the country was conducted at arm's length. There was, by practical necessity, a great deal of contact and co-operation between the governments concerned. Much of this was informal, some of it almost personal, but in certain cases, e.g. the Dominion Council of Health, a

⁷W.L.M. King, op. cit., p. 47.

formal and continuing organization did exist. In these particular fields there has been a fairly lengthy history of co-operation and consultation where obvious overlapping of interests existed, both in policy and in administrative practice.

The pragmatic nature of these relationships, useful as it has been, nevertheless has some tenuous aspects. Pragmatic relationships are heavily dependent on the actual interests shared by those involved. To this extent they will likely continue as long as these interests are being served. But they are usually loose and concerned only with particular things and may often operate in a manner which is quite without effective relationship to the overall objectives of continuing government policy.

Much the same can be said of the personal relationship which is normally dependent upon the community of interest of politicians or administrators. Where this community of interest is strong, it can provide a very useful force in the accomplishment of desired ends. But it does not always mean that the desired end or the force is consistent with the overall objectives of government policy. It is in this lack of relationship of individual programmes with total policies that many of our problems originate.

As the complexity of the total federal-provincial relationship increased, it became evident that provincial

representatives were not satisfied with the subordinate part they had been playing. The leader in this movement was again the Ontario Premier, now Mr. Frost. In his arguments for a more formal structuring of federal-provincial liaison, he received support from several other provincial representatives, more effectively than had Mr. Drew ten years before. At the Preliminary Conference of April 1955, Premier Frost said in part:

"The committee we suggest would be composed of advisers of the various governments, and, if the provinces so desired, municipal representatives could be included. Its work need not be confined to fiscal arrangements and taxation: there are other matters of mutual interest relating to economic stability, income and employment and public borrowing which should be considered. Such a committee should not be executive but fact-finding. It would be a medium where information and points of view could be pooled, and transmitted by the representatives to their respective governments without in any way binding them either individually or collectively....I would like to see such a Committee made a permanent part of the machinery of Federal-Provincial Relations....The Government of Ontario is convinced that if these Federal-Provincial Conferences were held frequently with a relatively limited agenda and were assisted by a fact-finding committee they could be of great assistance in reaching solutions to many complex problems of mutual concern." 8

The conference agreed that in the agenda for the main conference in October 1955 an item should be included:

⁸Premier Leslie Frost: Proceedings, Federal-Provincial Conference, April 26, 1955, Queen's Printer, Ottawa: p. 17.

"The desirability of establishing a Federal-Provincial Continuing Committee."

The first practical step to be taken was in the formation of a working committee of federal and provincial officials whose responsibility it was to provide technical and statistical information for the October meeting. This was known as the Preparatory Committee for the Federal-Provincial Conference, 1955.

This experiment in joint planning for a plenary conference was so successful that the establishment of a continuing committee of federal and provincial officials was agreed upon without dissent. Thus the Federal-Provincial Continuing Committee on Fiscal and Economic Matters came into being. It held its first meeting under the chairmanship of the Deputy Minister of Finance of Canada on February 2, 1956. It was then and remains today the only inter-governmental group (although one now perhaps should include the newly activated finance ministers' committee) on a regularly constituted basis, whose continuing interest ranges over the broad fields of public fiscal and economic policy.

Probably due as much as anything to the close relationship of economic and fiscal policy decisions to the questions of effective jurisdictional power, the governments in Canada have been slow to develop any structural approach to such liaison. The Continuing Committee has

performed a useful function and filled a noticeable gap, but even its activities have been limited by its nature as a body of officials without collective authority and as such with only advisory influence in the settlement of policy differences.

The only important development in the years immediately following was the unsuccessful attempt in 1959 to establish on a continuing basis a committee of the federal and provincial finance ministers. Despite the almost fundamental nature of such a proposal, for a number of reasons the move proved premature in the atmosphere of the times.

The situation that prevailed in the broad fiscal and economic policy areas was not evident where programme interests predominated. From about 1948 there were rapid developments in joint programmes which involved often complex relationships between the two levels of government. This growth is best illustrated by the fact that from 1900, when the first shared-cost programme was initiated, to 1945, there were but sixteen programmes, most of relatively minor significance. In the next twenty years, close to seventy-five, some of considerable importance and substantial cost, were brought into operation. Inevitably these resulted in a very substantial growth in intergovernmental contacts and many useful and effective means were developed of dealing with the mutual problems that inevitably arose

as a direct product of the cross-flow of interests.⁹

Further indication of the rapid growth is given in the figures on the number of formal conferences and meetings on matters of federal-provincial interest. K.W. Taylor noted that in 1957 there were sixty-four such more or less formally constituted committees in existence.¹⁰ Today, only ten years later, there are something like one hundred and seventy to be found. By no means all federal-provincial consultations are included in these figures. There have been and likely always will continue to be countless informal contacts between individuals and through 'ad hoc' committees at the two levels of government. In certain practical respects in terms of getting the job done, they may in many cases be the most important.

Although the process of development of effective liaison did not respond to the needs of growing inter-governmental involvement in the years after 1957, there was an increasing interest in the provinces in these matters of fiscal and economic policy. The growing pressures of their financial needs soon began to be reflected in a more active attitude toward this whole question of inter-governmental liaison. Again the influence came, as it had

⁹See Federal-Provincial Conditional Grants and Shared Cost Programmes, 1962, Q.P., Ottawa: 1963.

¹⁰K.W. Taylor, "Co-ordination in Administration," Proceedings, Institute of Public Administration of Canada, 1957.

in 1955, from a province, in this case not Ontario but Quebec, where Jean Lesage had assumed office in 1960.

Premier Lesage's interest was understandable in the context of his approach to the federal-provincial relationship. It involved a substantial alteration in the whole concept of central power with a correspondingly greater emphasis upon mutual solutions with increased and more effective participation of the provincial governments, rather than the federal domination of the earlier period.

"This absence of continuing relations becomes more and more unsatisfactory as the problems requiring the attention of governments multiply and become more complicated and as the necessity of co-ordination increases....We believe that with such a permanent secretariat, the Federal-Provincial meetings at the ministerial and the official level would be better prepared and more fruitful." 11

Mr. Lesage also noted the need for interprovincial consultation and was successful in interesting the provincial premiers in annual meetings for the purpose of discussing mutual problems of provincial jurisdiction. It was made quite clear at that time that no united front against the federal government was intended and it was invited to send observers.

At the same time Mr. Lesage tabled a copy of the Report of the Royal Commission of Inquiry on Constitutional

¹¹Proceedings, Dominion-Provincial Conference, 1960, Ottawa: Queen's Printer, p. 126.

Problems. This commission had been appointed by the Duplessis government in 1953 and reported in 1956. Its report, however, had not been tabled in the Quebec legislature, and partly in consequence it had not received the attention it deserved.

This commission, commonly referred to as the "Tremblay Commission," placed considerable emphasis on the importance of more institutionalized intergovernmental relations as part of a process for revitalization of provincial authority.

"In our era of integrated economic and social functions and of constant expansion of the state's role, co-ordination of policies within a federative state is a necessity which would become even more imperative if, as we propose, the Canadian provinces assumed the full responsibility for their jurisdiction on economic and social matters. Now this co-ordination cannot be obtained without a special effort being made toward that end. It requires suitable organizations." ¹²

The Commissioners proposed that there should be a permanent secretariat to the Federal-Provincial Conference. They rejected the idea of a permanent standing federal-provincial committee as being unacceptable, on the grounds that it might be regarded

"as a sort of super-parliament, and in a country of English public law, any institution which lays itself open to such a

¹²Report of the Royal Commission of Inquiry on Constitutional Matters, (Quebec) Q.P., 1956, Vol. 3, Bk. 2, p. 301.

reproach has little chance of being accepted." 13

The influence of the Tremblay Commission's ideas on subsequent thought in Quebec on intergovernmental co-operation is to be clearly seen in the proposal for a permanent council of provinces on the model of the American Council of State Governments. The statement is made that,

"If the provinces do not agree to co-operate among themselves, the country's own interest will finally require the federal government to take over supreme command." 14

It was almost certainly the constant pressures from the Province of Quebec, supplemented by a general and growing restlessness in all the provinces, that led to the first important development in fiscal and economic co-operation since the establishment of the Federal-Provincial Continuing Committee on Fiscal and Economic Matters in 1956. This was the proposal for the establishment of the Tax Structure Committee at the Federal-Provincial Conference in Quebec in March-April 1964.

Unfortunately no official record of the proceedings is available so the actual antecedents of the proposal made by the Prime Minister for the establishment of this committee are not clear. As the matter is put in "The Financing of Canadian Federation:"

¹³Ibid., p. 301.

¹⁴Ibid., p. 302.

"Some doubt persists as to when and where the idea of the Committee was conceived - whether its announcement at the March 1964 Conference had been planned in advance or whether it was extemporaneously devised during the conference because of the build-up of federal-provincial differences." 15

Regardless of the immediate motivation, one must agree with the continuing comment in the same reference,

"In any case, if the term 'co-operative federalism' was to have real meaning after the developments of 1963 and early 1964, the need for a study of the multi-level fiscal system was apparent."

This had been recognized for some time by those directly involved in trying to bring a measure of rationality to the system of intergovernmental relations. Whether this motivation was intellectual, technical or political is not really of great importance. What was important was that there was general acceptance of the proposal by all provinces, even with some enthusiasm, and it seemed that a break-through had been achieved in beginning the development of a more effective approach to many of the complex problems with which governments in Canada were concerned.

While the Continuing Committee was an official body, admittedly at the policy advisory level, the new Tax Structure Committee was made up of ministerial representatives and was directly responsible to the Federal-Provincial Plenary Conference. There were to be three repre-

¹⁵Canadian Tax Foundation, Toronto: 1966, p. 87.

representatives of the Government of Canada and one from each of the provinces, with the federal minister of finance as chairman. In fact, the strict formal representation has not been important as both the Dominion and the provinces have tended to bring in those colleagues and officials they thought most useful. In the best tradition of federal-provincial conferences, no votes are taken.

It was not until the Federal-Provincial Conference of October 1964 that the actual role of the Tax Structure Committee was clarified. At that time a report was presented to the Conference by the Minister of Finance of Canada as Chairman of the Committee, and as a result a wide field of reference in the area of federal-provincial relations was agreed upon and a secretary was appointed to co-ordinate the work.

It is important in the context of our interest to note that in this active period the secretary was a federal official and not a full-time or permanent appointee. The secretariat had but a skeletal full-time staff and was largely dependent on a temporary group of officials seconded from federal and provincial governments for varying periods. While this group did extremely valuable work in assembling and developing the necessary technical data, essentially the responsibility as the working arm of the Tax Structure Committee was with the Federal-Provincial Continuing Committee on Fiscal and Economic Matters.

From the fall of 1964 for the next two years the interest in federal-provincial fiscal and economic liaison was active. This was largely concentrated in the work of the Tax Structure Committee; in practical terms of work done, in the Federal-Provincial Continuing Committee. Extensive studies on revenue and expenditure trends were carried out on a co-operative basis in which there was a substantial measure of direct provincial participation, not only with respect to their own interest but in the total approach. In this respect, the work was more truly an exercise in co-operative federalism than anything that had gone before although it was not without its disagreements and difficulties.

In other areas of the Tax Structure Committee's terms of reference, the work seems to have remained largely a responsibility of the Department of Finance of Canada. This was particularly true in the important area of equalization, although one or two provinces did make useful contributions. Some provincial work was done in areas of tax-sharing and conditional grants, but the co-ordination of approach seems to have been substantially less than in the revenue and expenditure areas.

One might be tempted to question in hindsight the wisdom of assigning such a wide range of research responsibility to an internal intergovernmental group. While the overloading of available capacity was not nearly as great

as in the programme for the unsuccessful finance ministers meeting of 1959, still much too much was expected from men already generally more than fully occupied in their daily tasks. The idea of a specific and perhaps independent research group comes to mind as a possible answer.¹⁶

There is perhaps another lesson to be learned from all this. The studies of revenue and expenditure, while obviously dependent on government policy in their original sense, were nevertheless largely technical and reasonably objective in nature and of a kind that could respond to consideration at the official level. Equalization and tax-sharing are more politically oriented and it has apparently been difficult for the individual governments to pool their efforts objectively when self-interest was often closely involved.

Thus, while we have come a fair distance along the road to co-operation, we have by no means solved the problems involved in the reconciliation of individual governmental interests where conflicts exist, as they usually do. This view is supported by the end result. While a very considerable measure of technical co-operation existed all through the work of the Tax Structure Committee, when in the last analysis the results had to be translated into policy decisions, there was a difficulty in the political ability of governments concerned to accept the changes

¹⁶See reference to Advisory Commission on Intergovernmental Relations, C. 12.

which seemed implied. This was especially true where a measure of relinquishment of initiative and power was involved. This brings up some important questions on the nature and limitations of consultation which we examine elsewhere in this study.¹⁷

Since the Tax Structure Committee reported in September 1966, there has been an increasing interest and response in the work of the committee of finance ministers. This group has now commenced regular meetings prior to budget policies being developed and as well has taken an important part in certain special problems such as the effects of the Royal Commission on Taxation recommendations on federal-provincial fiscal policies and the economy generally. It is perhaps too early to evaluate the work of the ministerial group but it does hold out a principal hope for the introduction of some effective order into this complex area.

Consideration is being given to the amalgamation of the Tax Structure Committee and the finance ministers group. As their work falls into much the same area to continue both would mean increasing duplication and a waste of scarce resources and personnel. But it would be desirable to recognize that if the ministers of finance committee is to remain as the sole operating group in the

¹⁷See C. 4.

fiscal field, it must be given the resources to work with. If it does not have them it will become merely a vehicle for the exchange of marginal confidences once a year.

It is indicative of the growing interest in an understanding of the important issues in the field of fiscal and economic co-ordination that other areas of mutual interest have opened up in recent months. For example, a proposal was made at a recent meeting of the finance ministers that federal and provincial budgets should be the subject of independent analysis by an outside agency as an aid to the co-ordination of fiscal policies. Such a proposal, embryonic as it is, would have been unthinkable only a year or two ago.

There have been some interesting attempts at joint federal-provincial involvement in the field of financial regulation. If successful, these would provide most useful experience in a difficult area where such co-ordination is clearly called for. As of this writing, plans are still under development but constructive results may be forthcoming before too long.

Perhaps the greatest scope of all is offered by the Continuing Committee on the Constitution. While its main purpose is constitutional reform, its interest will lead it into the various areas of joint federal-provincial interests. It may be that this concerted attempt will provide the needed impetus to necessary change.

4. THE LIMITS OF CONSULTATION

The formal concept of federalism involving a distinct division of powers and responsibilities is not now a workable concept in Canada. Conditions changed since the constitutional division was first made. The cross-flow of interests between the political units has become too rapid and the currents too varied to permit the operation of the rather rigid structure that such dual federalism requires. Intergovernmental consultation in its various forms and degrees is but a reaction and a response to the situation and has become a matter of prime concern as the increasing community of interest has made necessary.

The classical form of federalism where each jurisdiction acts within its legally defined limits is strictly a product of the law which created it. Intergovernmental liaison or co-operation, even where formally provided, is a more informal process, dependent on the actions and reactions of varying interests. In this lies its strength through its adaptability, and its weakness where it lacks a firm base in the specific sanctions of the constitution. The task we face is in utilizing its adaptability, while at the same time containing its pragmatism within those limits of the law and the constitution.

"There must be initial definition of the powers and resources of each government in the federation before there can be bargains or agreements

among them about what each government is to do or refrain from doing with its respective powers and resources. Co-operation and mutual good we will certainly need, but no amount of them will do away with the absolute necessity for a primary authoritative distribution of powers and resources in our federal constitutional document." ¹

If we are to consider the processes of liaison as a possible answer to some of the problems of federal government in Canada today, it would be useful for us to have a clear understanding of the terms used and an appreciation of the limits within which the processes may work.

There are a number of terms which can be applied to the activities in the federal state which aim at the reconciliation of differing policies and approaches to problems of common interest. Such words as 'co-operative,' 'consultative,' 'co-ordinative,' 'creative,' have been used as adjectives for the new federalism. While they have some differences in their meaning, essentially they all have the same objective - the reconciliation or adjustment of differing needs and demands.

For the purpose of this study, it is enough to distinguish between the concepts of consultation and co-operation, although the somewhat more recent concept of

¹W.R. Lederman, "Some Forms and Limitation of Co-operative Federalism," Canadian Bar Review, September, 1967, p. 409.

"creative federalism,"² having a broader spectrum in the involvement of the whole community, has some interesting aspects for future consideration and development.

Consultation is but a first step in any process of co-operation. By definition it involves the seeking of information and advice. Co-operation on its part must lead to the more positive activity that results from the acceptance of joint interests and responsibilities.

But while consultation can take place without obligation or commitment in any form, if co-operation is to follow there must be an involvement which introduces certain complications when considered in relation to the legislative authority and process. If kept within these bounds, co-operation becomes a working arm of the federal system, but if carried to extremes it can become a system in itself with all the attendant dangers in the lack of accountability to which we have made reference. In this most extreme form, liaison, perhaps more closely than intended may be related to a definition of the Concise Oxford Dictionary, "an illicit intimacy..."

There are a number of pre-requisites if consultation between governments is to grow into the more productive process of co-operation. In the first place there should be a common and definable purpose for, unless this common

²Max Way, "Creative Federalism and the Great Society," Fortune, January, 1966, p.121.

interest exists, there is little substance in consultation and less hope of reaching any basis of agreement on methods to be employed. The problems of definition assume a very considerable importance, for as the Rowell-Sirois Commission noted, unless it is possible to define by means of some mutually acceptable standards the object of the exercise, the opportunities for misconception and misunderstanding are multiplied.

The second pre-requisite would seem to be a willingness on the part of all participants to accept the obligations of co-operation as well as the benefits. This does not mean a pre-commitment to the will of the majority, but it does mean that there must be an involvement in the processes of consultation in good faith and with the declared intention of reaching if possible a satisfactory solution, accepting in this that no such solution is ever likely to be completely satisfactory to all concerned.

A third requirement is a recognition of the fact that consultation, particularly when various separate authorities are involved, is often a slow and laborious process. No party can be said to consult in good faith unless it enters into negotiations in full awareness and acceptance of the time and effort which are unavoidably required by the process. Unless this is so it can only be assumed that there was no desire for an agreed solution or, alternatively, that by pressures of time it was hoped to

force a decision more favourable to its own cause than might otherwise have been the case.

Fourthly, unless there is some comparable level of capacity among the participants, no consultative process is likely to result in a truly co-operative result. An answer may be forthcoming but it will tend to be one dominated by those who, by their technical and political competence, have assumed control. In view of the great differences of capacity usually present in such consultative arrangements in the federal-provincial field, this is a difficult if not an impossible requirement to meet fully, but all matters are relative and the best possible level of competence in small parcels will be recognized and will add immeasurably to the equity of the results that will likely be achieved.

The development of the intergovernmental process of consultation has added important elements of flexibility to the federal form. As Lederman has noted,

"It provides opportunities for innovation that may help greatly to establish more satisfactory relations between the federal government on one hand and the provincial governments on the other." ³

But it is not the complete answer in itself for, aside from the questions of its relationship to the constitution,

³W.R. Lederman, "Some Forms and Limitations of Co-operative Federalism," Canadian Bar Review, September 1967, p. 435.

it must adjust to certain very practical limits in the governmental process.

In general terms, these limits may be divided into two principal sections; those of a political nature (and this is using the term in a broader sense) and those which are matters of administrative concern.

While circumstances vary, the political aspect of co-operation that probably has the most influence over the attitudes of a government toward liaison is that of the surrender of political authority. This factor in itself may have two aspects. One is that of the responsibility as a government. The other is related to the maintenance of political power.

By its own nature the process of co-operation between governments will in most cases involve the surrender of individual initiative by the parties to the arrangements. If workable understanding is to be achieved, some points will almost certainly have to be yielded if others are to be gained. The implications of the surrender of vested authority can be far-reaching and must be considered as one of the fundamental limits of co-operation in the federal state.

In the narrower political scene the question can assume several forms. Probably the most important relates to the fact that governments are made up of men and men like power and are reluctant to accept policies or actions

which can result in it being diminished. Mutually acceptable solutions may be to the advantage of all concerned, actually and politically. Nevertheless, there will almost certainly be an initial reaction of reluctance to enter into arrangements which infringe on the independence of political power.

In another aspect the same question of party policies will enter into the situation. The research into party influences in federal-provincial relations in Canada is less than adequate, but an examination of the evidence would seem to indicate that the influence of the provincial party organization may on occasion sway the attitude of a provincial government in its dealings with the central government. This is particularly so when important matters of real or potential political controversy are at stake. In the Canadian experience however the purely party aspect could easily be overrated. What would probably be nearer the truth would be something more akin to a regional reaction which at times seems to come to an almost automatic suspicion of anything that may be proposed from the centre (or vice versa) until the case has been proved otherwise.

Politicians are not the only ones to enjoy the fruits of a vested interest. Similar attitudes and reactions will be found both in the federal and provincial public services. Just as a politician may develop a fixed attachment to a particular policy in which his own interests and perhaps

his career are involved, so may a civil servant, perhaps as a reflection of his minister's interests but more likely through his involvement in the success of a particular programme or project. Such reactions are not found only at the top but throughout a fairly deep layer of the administrative structure. The reluctance to see his own responsibility diminished, whether through a change in programme or through a sharing of responsibilities, may influence the extent of his co-operation.

It is only fair to note that the influence of the vested interest does not work in one direction only. Both among ministers and officials the development of joint programmes in co-operation may be supported rather than opposed where co-ordinated action works to the public or personal advantage. It is probably true that many of the federal-provincial programmes of the past twenty years have owed something to this.

But what may be the most important impediment to intergovernmental co-operation as part of the federal system has nothing to do with either the political or the administrative aspects of the question. This formal co-operative process is by its nature essentially a committee operation with the need to reach a working consensus dominated by the desire to maintain or develop the best position of advantage. In some respects it has a marked similarity to processes of international negotiation,

although as Lederman has noted, there are some important distinctions in the extent of authority.⁴

Committees are recognized as useful devices for obtaining a consensus and their use for this purpose is common within as well as between governments. But they are somewhat less successful, as experience has shown, in arriving at agreement on what actually should be done and when and how it should be undertaken. This situation is further complicated where the subject matter, as is now so often the case, is of a complex nature with broad implications of policy. It is this situation that makes the process less satisfactory in the field of economic and fiscal policy than may be the case in areas of specific activities with readily identifiable standards.

The result may often be that either it is not possible to reach a decision at all, the decision is an unsatisfactory compromise, or it is the reflection of a dominant position held by one member or a group of members of the committee. It is in this latter situation that one finds most committee decisions within governments where there is often one dominant voice which can make the decision or decisively influence the final result.

A further impediment of increasing importance in certain critical areas of governmental interest is the in-

⁴Ibid., p. 414.

evitable time lag which seems unavoidably connected to some mutual arrangements. Even were it possible for quick decisions to be taken within the intergovernmental group responsible, the lack of executive authority generally requires a reference back to the overriding legislative authority of each member. Even in the ordinary course of legislative activity this could mean lengthy delay, but with the relatively short sessions of most provincial legislatures, the delay could extend into several months.

In some cases this might be acceptable but with the growing demands on liaison in fields of fiscal and economic policy, delays could make the co-operative process under present conditions valueless if not positively dangerous. By the time action had been authorized by all of those concerned, conditions could have changed so much as to make the agreed solution quite inappropriate.

The conditions outlined as they relate to the committee activity of intergovernmental liaison cannot but have a retardant effect upon the usefulness of the liaison process.

There is one further point we might examine briefly which relates not to the effectiveness of the co-operation and the constraints upon it, but to the ends which are being sought. The fundamental purpose of intergovernmental co-operation is to adjust those areas of governmental power and responsibility which do not respond to the constitu-

tional definition, either through our inability to define them or through changing circumstances. Within limits the process can be an increasingly useful and effective supplement to the activities of the various governments within their respective authorities, particularly when it comes to the co-ordination of divided interests. But the situation is becoming more and more complex and difficult to resolve with the growing tendency on the part of some to seek a greater provincial voice in areas of federal responsibility. In a different way but with similar results, the national government, through its spending power, has exercised strong influence over many areas of provincial policy.

If this process of interrelationships is continued indiscriminately into most areas of public responsibility, there is going to be very little left for independent action of individual governments, for some common interest in nearly all public policies can be found if we search carefully enough. The question we must be prepared to ask ourselves before we accept co-operative action as the elixir of the carefree federal state is whether carried to its full extent it leaves us with a federation at all, or just a less-than-satisfactory substitute for the unitary form. Discretion and restraint appear to be a prerequisite of success.

It would be only too easy to overstress the limita-

tions on liaison that we have outlined here. Few, in fact, are likely to operate in the same direction at the same time and in many cases countervailing forces will exist. But while we must not exaggerate, neither should we rush pell-mell toward a complex system of liaison in the hope that it will provide the final answer for us in our trials. Liaison, like so many other instruments of public policy, is no magic formula, but only a means to an end. The ways and means can only implement the willingness to act for the public good in goodwill and with a common purpose.

5. CONFLICTS IN THE FEDERAL SYSTEM

It is not necessary to go very deeply into the fiscal and economic problems inherent in the federal form to be forced to agree with Sir Ivor Jennings, among others, that it is a system at least in these terms, that should be adopted only if no workable alternative is available. But having said this, and having assessed the demands that will be made on any system Canada might adopt, it becomes quite clear that the options open to us are very limited indeed.

This has become ever more evident as the complexities of modern society have increased the demands upon government. While it is sometimes argued that this development should lead to a reduction in the conflicts as the opportunities for activities by all jurisdictions are widened, in certain important respects this may not be so. The opposite may be the result. A great growth of overlapping interests may increase the opportunities for friction rather than dissipate them.

There would be little justification here for an attempt at a detailed analysis of the various conflicts that are an integral part of the federal system. These have been discussed in length in a variety of other places. For our purposes we may limit ourselves to an examination of one central aspect of the problem, that of fiscal and economic policy. Essentially our concern is how we can reconcile different interests with different capacities

to perform, given the limitations of resources which are characteristic of federal divisions. As Blough puts it,

"What results do the realities of fiscal action place on choices regarding federalism? That is what decisions that otherwise seem attractive are found to be impractical or otherwise undesirable because of difficulties in using the fiscal machinery." ¹

It is our purpose to examine these responsibilities of the units of the federal state and to try to see where the interests are opposed and how they may be brought into harmony where this is judged desirable. No overall solution seems likely but in the process we must try to devise various methods and approaches that can lead to the development of strong and effective units within an economically and politically viable whole.

We are faced with some fundamental problems, not the least of which in terms of fiscal and economic policies, is the adjustment of the conflicts which are always to be found when the interests of the whole must be balanced against those of the individual parts. Such a balancing can involve some difficult decisions, for often the scale of values is quite different. We must be prepared to weigh the economic gains of national policy against the political and social demands inherent in more balanced

¹Roy Blough, "Fiscal Aspects of Federalism," in Federalism, Mature and Emergent, A.W. MacMahon (ed.), New York: 1962.

regional growth. This is not a situation exclusive to the federal form but is a problem which is perhaps high-lighted there by the stronger political implications involved.

Our concern is with our ability to construct a process of economic and fiscal policy determination and operation within the constraints of a system where the necessary powers are divided between two jurisdictions, each of authority in its own assigned field. To understand the problem and approach the solution we must develop as clear as possible a concept of what the terms we use mean in the context of their application here.

The terms fiscal and economic, when applied to policies, are often used interchangeably. For our purposes in this study, we will use the term fiscal policy with reference to both revenue and expenditure measures (including capital borrowing) which are directed toward the influence of the economy, accepting the fact that this is somewhat broader than the definition sometimes attached. The term economic policy is related to a broader area of government activity and is deemed to include those measures which directly or indirectly are intended to act upon economic activity whether by regulation, subsidy, or other means. Obviously the two are closely related and while fiscal policy is more often directed to stability than to longer term growth, in particular cases it may be difficult to classify a policy as one rather than the other.

Fiscal policy in these terms has more often than not been accepted primarily as an area of central government interest and responsibility; economic policy, or at least economic activity, is the concern of all jurisdictions.

A brief recall of the respective powers of the central and provincial governments in Canada would be useful at this stage. These are contained in Sections 91 and 92 of the British North America Act, but it is not enough to examine them purely in the constitutional text. We must, in assessing the relative authority of the two levels of government, take into consideration the changes wrought by court decision, by changing circumstances and by practice.

Under the British North America Act, Canada was given extensive powers in areas which appeared to the Fathers of Confederation to be consistent with the financial needs of strong central government. The concept of fiscal policy did not appear until some time later although, as Perry notes, it was at least acknowledged a good deal earlier than most of us think.² Included in these powers was the right to full and unrestricted use of all forms of taxation. In addition, control over money and banking, trade and commerce and other important activities was vested in the central government. These, along with the general power to make laws for the peace, order and good government of

²J.H. Perry, Taxes, Tariffs and Subsidies, Toronto: University of Toronto Press, 1955, pp. 287-88.

Canada, were considered adequate to provide necessary authority for the development of responsible policies for national growth.

On the other hand the provinces, by Section 92, were limited to the usual local measures of licences, fees, etc. and to direct taxation within the province, at that time largely conceived in terms of local tax on realty. Few of the powers could be considered vital in the control of fiscal and economic policies even in the context of the time.

Change has followed upon change in the growth of this intergovernmental financial relationship, more often than not founded in expediency rather than in considered plan. For many years they were not too important in themselves, but over time a pattern of power and response has developed quite inconsistent with the original form and intention.

The developments of a widening public responsibility have in modern times become increasingly a factor in disturbing what little balance existed in the federal-provincial division of revenue powers and expenditure responsibilities. Over the long run and particularly in the post-war years, the burden of non-defence expenditure in the public sector has tended to fall increasingly at the provincial and municipal level. If we add to this the growth of provincial powers resulting from decisions of the courts and the developments in administrative and

political practices, we find that we must adapt to a situation which is quite divorced from the original concept upon which this nation was founded.

Developing Trends

As we have already noted, a major area of friction in the federal operation is the struggle for primacy between policies directed to the total national benefit and those related to regional needs. Because of the conflicting economic, not to mention political pressures, both for stronger national unit and for more consistent regional growth, the distribution of responsibilities with economic and fiscal significance has invariably proved a difficult one, not only here in Canada, but in most federations. The emphasis upon rapid and sustained national economic growth has proved a strong influence for the placing of economic power where usually it has been assumed that they would be most effective for that purpose, i.e. under central direction.

But against this centripetal force have been the conflicting economic interests of regions which would benefit from different policies. The situation is further complicated by the fact that in many cases it is difficult to draw a clear line between policies with respect to their national and regional effects. The general result has been that in the newer federations

which have been formed in the post-war era, the tendency has been to share economic responsibilities between the central and regional governments, although in most cases there has been an acceptance of the importance of central influence. The effect has been to place in the hands of the central government the major means for promoting economic development but to require, at the same time, a high degree of reliance upon the co-operation of regional units for full implementation of economic policy and development programmes. Consequently in practice the role of the central governments has often been primarily one of co-ordinating or aiding regional actions, although in some cases they have been able, in the carrying out of this function, to exercise considerable influence through their predominating position in the financing of development expenditures. In the older federations similar patterns have been developing although through more pragmatic processes.

Since the control of revenue and expenditure is a vital instrument in the active public influence of the economy through fiscal and economic policies, no discussion of federal economic policy would be complete without a consideration of patterns of federal finance. At one time when federal finance was discussed, the subject was considered simply as a question concerning what revenues were allocated to each level of government, whether these

were adequate for the expenditures assigned to each and if not, what sort of adjustments were necessary. But the allocation of taxing and other revenue sources, and of responsibilities for expenditure have taken a new significance because of their role as instruments in the control and promotion of the economy through active fiscal and economic policies.

The question of intergovernmental financial relations in a federal state is a complex one involving not only economic but political issues as well. Insofar as the allocation of financial powers and responsibilities affects economic efficiency and sets the framework of policies, it may determine the extent to which it is possible to achieve the optimum utilization of resources which will promote balanced economic development both within particular regions and throughout the federation and at the same time provide economic stability. Economic aspirations have been a major factor in the formation of most federations and the criterion of economic efficiency thus has particular significance.

But political considerations have also been of vital importance, particularly as they have been concerned in the assignment of revenues between levels of government. This factor can have a crucial bearing on the whole pattern of political and administrative relations between the governments concerned, particularly through the questions of

the degree of genuine regional autonomy and the effect of this on the authority of the central power.

Within any federation there can be no reason to assume that political and economic considerations will always point in the same direction. Indeed, the opposite will often be the case. A closely integrated financial system, desirable on the grounds of economic efficiency, may threaten to undermine the regional political and cultural factors which the federal structure was designed to protect. Hence adjustments and compromise are inevitably necessary if two kinds of conflict of interest are to be resolved: first, those between national and regional governments and the distribution of financial resources between the two levels; and second those arising from rivalry between regions over the actual distribution of these resources among them.

While conditions have changed over time, there has been a fairly consistent pattern characteristic of the federations of the post-war period. The details of the solutions have often been substantially different, but the essential approach has been based on similar principles.

Three major and variable components are involved:

- (1) the assignment of powers to levy and collect revenue;
- (2) the allocation of expenditure;

- (3) the use of substantial transfers of revenue from one level of government to another.

Each of the first two has been treated separately while the third has been used as a correcting factor to bring revenue and expenditure of the national and regional governments into balance and as well to provide some measure of equalization between wealthier and poorer regions.

In the assignment of powers to levy and collect taxes and other revenues the principles of economic efficiency and national objectives have tended to dominate the actions of constitution makers. Major sources of revenue have been assigned in nearly all cases to the central government, although in some cases, as in Canada, important concurrent regional authority exists. In these decisions considerations have been the efficient levying and collecting of taxes, the minimizing of double taxation on the same base, the avoidance of financial barriers to inter-regional trade, the credit-worthiness of the federation and what may be the most important of all, the enabling of a nationally integrated fiscal policy, both for purposes of stability and growth.

In the allocations of fields of expenditure, on the other hand, economic, social and political considerations have led to a much higher degree of decentralization. Because in many fields, especially social services and education but including such areas as agriculture and

many resource development projects, administrative effectiveness and adaptation of local circumstances can often best be achieved through local control, there are economic arguments to support decentralization. This view has been reinforced by the strength of regional political interests in most federations. As a result, many of the expensive and expansive fields of public expenditure are in the hands of regional governments.

We have already made reference to the fact that this difference in concentration of revenue resources and spending responsibilities has created some serious problems which require adjustment. It has increasingly become a factor in the federal process for methods of financial transfer to be devised which, in part at least, can adjust what usually turns out to be a state of chronic imbalance. It is a matter of interest that in most of the new federations the situation has been recognized from the start and they have attempted to make the necessary provisions for adjustment.

It has been a common criticism of the federal form that its division of powers and responsibilities results in legalities, rigidities and technicalities which must be met pragmatically or by the construction of often clumsy machinery for dealing with situations which do not readily respond to formal treatment. The experience of Canada and Australia in the depression of the 1930's is used as an

illustration of this. Even those federations in which the constitutional control of economic affairs has been highly centralized have found difficulties in areas of fiscal and economic policy and planning by reason of the conflicting interests of the federal structure. It is to the question of the interaction of governments in fiscal and economic policies in Canada in the post-war period that we will next turn our attention.

6. FISCAL AND ECONOMIC POLICIES WITHIN THE FEDERAL
FRAMEWORK

While the involvement of governments in problems of economic development has always been recognized in this country, in the field of fiscal policy the acceptance of responsibility is of more recent origin. Theoretical interest in Keynesian counter-cyclical policy after World War II led to the examination of a host of questions concerning the more subtle implications of its implementation. In general, attention was focussed on the nature and powers of the fiscal instruments as well as the conflict of goals which might ensue. Only occasionally, however, did political economists concern themselves with the existing fiscal and political institutions and arrangements which would inevitably determine the practical success of the Keynesian idea.

The nature of the governmental structure was one important area that was generally overlooked. There was a noticeable tendency to assume that only one level of government existed with full power over fiscal matters and that, therefore, it was only necessary to design the desired fiscal equation for that particular government. This attitude is to be noted in the "White Paper" on employment and income of 1945, in which somewhat less than adequate recognition was given to the complexities of fiscal and economic policy implementation in a federal

state. While the limited approach to institutions and arrangements was and is essentially correct in the case of a unitary state such as the United Kingdom, it will not likely be so where a federal structure exists, although in the atmosphere of the centrally controlled economy of 1945 in Canada the attitude is understandable. The problem is especially acute where the regional governments possess a high degree of autonomy in fiscal decision-making. In such cases attempts by the central government to influence the nation's economic performance may be either assisted or impeded by the decisions of the other government levels.

If we assume that the central government (in this case the Government of Canada) has accepted the responsibility for maintaining high levels of production and employment, as well as relatively stable prices and a reasonable per capita income growth rate, it is important to examine the fiscal role played by the provinces (including their municipalities) in the attainment of these goals. To what extent have provincial spending and taxing patterns complemented those of the federal government and to what extent have they conflicted? Have the results been positive, negative or largely neutral? In any case, has the provincial pattern been due to discretionary or automatic factors? What reasonable arrangements might be developed which would strengthen the fiscal contributions

of both provincial and federal governments to stabilization with growth?

These are a few of the more significant issues which we will examine. No attempt is made here to provide an exhaustive analysis of the problem. We do not propose to duplicate the useful work done by others such as Will for the Royal Commission on Taxation, or Barber, for the Ontario Committee on Taxation. Our purpose is to look at how fiscal and economic policies have operated in the federal context in Canada and to try to see what contrary and complementary forces exist and how they may be directed to the achievement of our basic purpose of the optimum stable growth for this whole country.

The Basic Issue

The problem of the influence of these policies on aggregate demand in Canada is an extremely difficult one. In studying the history of activities in the post-war period, it is impossible to escape the feeling that the situation has too often been over-simplified. Too often we have tried to deal with matters as if there were single causes rather than multiple ones.

The complexities of the whole question are brought readily to our notice if we look very briefly at the powers through which governments may develop fiscal and economic policies. In general terms the ability to provide effec-

tive fiscal policy depends on the ability to take action through the use of the principal tax fields especially the individual income tax, through monetary policy, through government expenditure both current and capital, through the use of debt and credit and by more direct regulatory means. All of these are available to the central government under our constitution, in whole or in part. The provinces, however, are more restricted both in the extent of their activity, as in the case of monetary policy, and in their ability to apply policies effectively in the areas available to them.

In economic policy, the role of available influence is wider and the relative importance of the provincial government is noticeably greater. While most of the factors which apply in the case of fiscal controls also have influences in the economic sector, there are a number of additional ones. Among them are resource development, labour policies, industrial development, education and technical training, immigration and regulation of corporations and enterprises.

Not only are there the varying influences of divided authority to be contended with, but there are a number of constraints upon the use of the available instruments which operate regardless of the framework that contains them. These we might usefully review briefly here.

Constraints

In any important process of policy development there will be difficult questions of alternative goals with respect to which decisions must be made. Often these decisions will involve fundamental questions in the assessment of social, economic and even moral issues, as well as the ever-present political ones. Unless such assessments are made there is no way in which many of the decisions necessary in the development of fiscal and economic policies can profitably be taken. This is becoming more evident as the demands of the public sector press more heavily each budget against the rather flexible ceiling of politically acceptable and economically supportable levels of taxation in all jurisdictions. A factor which adds to the difficulties is that the pressures of public demand as they grow in size tend also to grow in their inflexibility as the vested rights of programmes and interest groups become established. The room for manoeuvre becomes correspondingly narrowed as desirable ends must be weighed against the need to influence the economy.

Nor is it possible to neglect the political factors implicit in the exercise of fiscal policy. Even where the course is clearly outlined, and this is the exceptional case, a government's reaction to fiscal requirements will be subject to the judgment of the effect of its actions on

its political fortunes. Tax cuts to stimulate the economy are easy enough to accept. Tax increases for restraint especially in a period when taxes are already high, take a good deal more political courage, especially if an apparent surplus is the government's objective. Nor is it as easy to act in an election year as when the test is just behind. As Will points out, "Fiscal policy, of necessity, had to be geared to political reality."¹ Too frequent changes are going to be viewed with suspicion for no government enjoys the reputation of being the custodian of an unstable economy which requires its constant attention. Action will often be delayed in the hope that it will eventually be unnecessary.

Finance ministers must also be prepared to deal with the technical problems of fiscal policy as well as the political ones. Despite our acknowledged advances in recent years in the collection, processing and analysis of information, the science of economic forecasting is still in its infancy. Even where sources, methods and conclusions are reliable, there is often such a time lag in the information being made available for use that the situation may very well have changed before any action is possible. The end results may be quite unlike what is currently required. This lag factor is particularly important as

¹R.M. Will, Canadian Fiscal Policy, 1945-63, Royal Commission on Taxation, Study No. 17, Q.P., Ottawa: p. 91.

these matters can seldom be dealt with in isolation but must be used in conjunction with others such as monetary policy, the balance of payments and other international influences.

These impediments have not been listed in any attempt to denigrate the whole concept of fiscal and economic influence through governmental measures. Such would be defeatist and quite unjustified. But what we do suggest is that there is insufficient recognition of the complexities of a situation which under the most favourable administrative and political conditions has many obstacles in the way of successful solution. These are the problems of government in a complicated society and exist regardless of the structure within which they must operate. But there can be no doubt that they are not made easier by the divided authority with which we in Canada must contend.

In the unitary state, while there will almost always be a number of alternative choices to influence the formation of any policy, in the last analysis one responsible authority will make the decision. In the federal state, in many fiscal and economic decisions that must be taken, there will be an overlap of authority and we are faced with the additional problem of reconciling objectives and methods of the competent authorities involved. The situation is no easier by reason of the fact that, in the process, political differences may have to be resolved as

well. As the Royal Commission on Taxation has noted,

"The larger the relative changes required, the greater the political barrier to quick and decisive action by the federal government."²

Fiscal Policy

There is a good deal of difference of opinion as to how the divisions of authority in a federal state affect the conduct of fiscal policies. On a priori grounds it is not difficult to argue that provincial finances could tend to run contrary to federal countercyclical policies. If the objective of such policy is to add to aggregate demand when the economy is faltering and to suppress aggregate demand when the economy is overheated, by the nature of their financing positions or their administrative needs it may be that provinces would operate to the opposite effect.

Provincial and municipal policy-makers have, with few exceptions, shown little evidence of practical conversion to the 'Keynesian idea', although in some instances they have accepted its principles. Admittedly their room for manoeuvre has generally been quite limited. The lag which seems to exist between the time a new conceptual framework is developed and the time it can be knowingly

²Report of the Royal Commission on Taxation, Ottawa: Q.P., 1967, Vol. 2, p. 97.

put into practice is formidable. Before an idea can have practical application it must in political terms be related to a recognized problem. While it would be idle to suggest that those who guide the affairs of provinces and municipalities have not been aware of the dangers of depression and inflation it seems reasonable to assume that they have not recognized them as primarily their own and have conceived of them more as national ones and looked to the federal government for solutions. Provincial responsibility, so far quite properly, has been a financial one related to the supplying of public needs. It has seldom gone much beyond that. The upward progression of much of provincial and municipal spending in the current inflationary period is evidence enough of their effective dissociation from direct responsibility. This makes no judgment of the merits of the programmes for which these increasing costs are being incurred.

While there may be political and historical reasons for the provincial position, there is also strong practical support for it. The nature of these policies and the economic interdependence of the provinces results in a total lack of control over the regional consequences of cyclical action. The costs of 'leakages' involved can be severe as the benefits of any such action on the part of one province will quickly spill over into other jurisdictions. The external results may quite possibly be greater

than the primary benefits gained by the home province. Under such circumstances provincial and local legislators and officials, perhaps especially if they understand the mechanism, are wont to have a marginal interest in undertaking major fiscal programmes, some perhaps of a fairly radical nature, when they may provide more benefits to non-residents than to their own people. Just as the 'exclusion principle' has led to the collective provision of certain public goods and services which might otherwise be left to the individual,³ so the inability to contain the benefits of a policy within one's own political jurisdiction quite naturally shifts that policy responsibility upward to the larger jurisdictions.

While some authorities including Barber⁴ argue that most Canadian provinces are large enough and financially capable of carrying out at least a modified fiscal policy, the greater weight of opinion seems to be on the side of a more restricted role.⁵ Even if provincial and municipal governments were technically equipped for the job and were prepared to accept the responsibility for carrying out

³See R.A. Musgrave, "The Theory of Public Finance," New York: McGraw Hill, 1959, pp. 6-17.

⁴C.L. Barber, Theory of Fiscal Policy as Applied to a Province, Ontario Committee on Taxation, Toronto: Q.P., 1969, C. 2.

⁵Report of the Royal Commission on Taxation, Ottawa: Q.P., 1966, Vol. 2, pp. 102-105.

countercyclical policies, it is doubtful whether they possess the basic abilities to do so. Such policies require deficit financing to combat deflations and provincial or municipal governments seldom have adequate credit resources for this, especially if the deficits must be continued over long periods as during the 1930's. Today most provinces are straining the ceilings of their credit as a result of the heavy demands for capital for their growing needs. Even the larger provinces with their high borrowing capabilities on the public market are only in the position of preferred debtors and lack that basic power that goes with national status in these fields, i.e. the access to the central banking system which is so important to extended deficit financing in times of continuing stress. Even if the credit resources were adequate, the costs of carrying the debt could be a real budgetary burden. If this aspect is coupled with the 'leakages' to which we previously referred, the incentives for local fiscal activity are further reduced.

Perhaps the most important of these considerations is the fact that the principal provincial and municipal revenues have not, in the period of our interest, been of the nature that best fits them for fiscal uses. The actual reliance has been more on revenue resources which are less responsive to adjustment with the level of economic activity than those under central control. We

think here particularly of the individual income tax. Thus an important instrument of countercyclical policy is missing. But even if tax allocation changes to the local advantage continue to take place in the future, the elasticity of provincial revenues are likely to be more than taken up by the continuing growth of expenditures in such difficult and inelastic fields as education, health and resource development. These factors would at least limit the fiscal influence where it did not correspond to the main expenditure purpose.

The experience of the 1930's in both Canada and the United States was of local financial activity that tended to operate against the best interests of the economy. The best known study of this is that of Hanson and Perloff which noted this trend in the United States in that decade:

"The taxing, borrowing and spending activities of the state and local governments have typically run counter to an economically sound fiscal policy. These government units have usually followed the swing of the business cycle from crest to trough, spending and building in prosperity periods and contracting their activities during depressions. In the boom of the late twenties, they added to the disposable income of the community and bid up prices and building costs in large scale construction activities. In the depressed thirties the fiscal policies of these governments exerted a deflationary rather than an expansionary effect on the economy: expenditure and especially construction outlays were severely reduced, borrowings were restricted and taxes weighing on consumption were increased." 6

⁶ C.H. Hanson and H.S. Perloff, State and Local Finance in the National Economy, New York: 1944, p. 49.

This is the concept of fiscal perversity and it will be our task to see if it applies in the context of current Canadian experience.

No useful purpose will be served here by an analysis of the data in the years prior to World War II. In the first place there is a lack of reliable detailed statistics applicable to short-run analysis; in the second place, the unusual severity of the secular downturn of the 1930's is overwhelmingly reflected in all economic series of the period; in the third place, the very issue which is at the root of our concern - countercyclical policy - hardly became known until after World War II in practicing circles; and in the fourth place, the changes in institutions and arrangements which have taken place from the forties, particularly with respect to federal-provincial fiscal relationships, would render pre-World War II findings somewhat obsolete. We limit our interest therefore to the period from 1946.

Even a cursory examination of post-war data reveals immediately that the over-riding element in the provincial/municipal expenditure behaviour has been in persistent and almost linear growth over time. Excluding intergovernmental transfers, from about \$1.5 billion in 1946 it increased nearly five-fold to around \$6.8 billion in 1962 which was the first year on the 'national accounts' basis that it exceeded federal spending. By 1965 provincial/

municipal expenditure had reached \$9.1 billion as against the federal total of \$7.0 billion. While federal spending increased also during this period, it exhibited a more erratic behaviour and generally much less relative growth.

The provincial/municipal experience is not any accident of circumstance or the product of mere political ambitions. It can, in large part, be explained by the fact that following World War II Canadian society not only changed in its attitudes toward its public needs but had accumulated a large backlog of unmet demands in precisely those areas that constitutionally were the responsibility of the provinces and municipalities. Economic and population growth, in addition, began to place increasing demands on these same areas. Having postponed the provision of adequate services in the fields of education, health, welfare and highways, as well as municipal services during the depression as a result of starved finance and during the war as a result of the need to use real resources for more immediate and important purposes, the provinces and municipalities were almost as one, faced by many pressing demands. The result has been a period of continuing growth in expenditure with the almost frenetic emphasis on education and training adding an even more compelling factor. This growth, under the circumstances, contributed little to stability. Taking place as it did in a period of continuing price increase, it may very well have con-

tributed to it. It was an unavoidable secular process, but serves well to illustrate the difficulties of manipulating the expenditure pattern in times of pressure of public demand for needed services. The revenue pattern has been similar.

Of course it can be argued that during the periods in which the economy experienced deflationary pressures, and there were three or four of these of quite short duration, the strong demand from provinces and municipalities contributed to stability in the economy. But by the same token and more frequently it contributed to upward pressures when aggregate demand was already pressing on the nation's resources. The post-war experience does not appear to have been influenced by any consistent fiscal policies on the part of provinces and municipalities. They have not been represented by any noticeable built-in stabilizing programmes nor by many discretionary and deliberate counter-cyclical moves. In other words provincial/municipal policy in this period has in nearly all cases, with a few notable exceptions, been largely independent of fiscal purpose. Any effects have been incidental to the prime expenditure role.

While the pattern of provincial/municipal expenditure has been one of consistent growth, the same is not true of the federal experience. An examination of this shows the movements in federal fiscal behaviour as they

are related to the varying periods of economic activity in the post-war years. Here one begins to see some movements which, at least, are positive even if not always accurate or adequate, for the timing is often off and the policy itself generally too hesitant and too mild. References to this situation are in the Report of the Royal Commission on Taxation, in the Will Study for that Commission and that of Barber to which we referred earlier.⁷

From the evidence it is not unreasonable to conclude that the federal authority is still the most important source of built-in and discretionary countercyclical policy and the provinces and municipalities at best are generally neutral in their policies, although both positive and negative effects have been noted in the process. The Royal Commission has made an interesting comment,

"The point is, that while provincial governments could help the federal government stabilize the economy, a lack of federal-provincial co-ordination and co-operation with respect to the changes does not make the federal task technically impossible. It could, however, make the task more difficult politically." ⁸

There has been in the past very little federal-provincial interchange in areas of total budgetary policy

⁷See Report of the Royal Commission on Taxation, Vol. 2, pp. 67-81. R.M. Will, Canadian Fiscal Policy, 1946-63, Study No. 17, Royal Commission on Taxation, Q.P., Ottawa: 1966. C.L. Barber, Theory of Fiscal Policy as Applied to a Province, Ontario Committee on Taxation, Q.P., Toronto: 1968.

⁸Ibid., p. 101.

with the result that the policies which have been adopted have been directed to particular ends rather than to the overall objective of providing a working basis for federal and provincial co-operation in the arrangement of the economy.

But it would not be correct to assume that there are no inter-relationships between the federal and provincial governments which influence fiscal and economic policies in Canada. There are in fact a number of practical relationships that exist and even though their purpose is not directly related to the co-ordination of fiscal and economic policies, they do have influences of varying importance.

An important part of the federal-provincial fiscal relationship in Canada in the post-war period has been a direct reflection of wartime demands. For the period from 1941 to 1962 the era of the tax rental agreements gave the national government effective control of two of the important tax sources for fiscal purposes and particularly of the individual income tax. The control was not complete due to the abstention of Quebec from 1947 on and of Ontario during some parts of the period, but it was for all practical purposes effective. The problem of divided fiscal authority did not seriously arise as an issue in this period, and until 1962 the Government of Canada was able to act to the best of its ability without any strong

challenge to its power. After 1962, the tax collection system replaced the old rental agreements and while in theory this should have seriously reduced the federal authority, as it was worked out the provincial ability to use the tax fields was limited by the necessity of following the federal lead in the levying of those taxes. The provincial "freedom" was to some extent illusory and the situation was not basically changed.

The real weakening in federal control did not actually start to develop until somewhat later. While there had been a persistent resistance to the federal authority from Quebec and to a lesser extent Ontario, actual developments which threatened the federal position did not occur until 1963 with the development of the policy of allowing provinces to "contract out" of federal conditional grant and shared-cost programmes. Conditional grants after the war became an increasingly important part of the federal-provincial financial relationship. Along with the tax agreements they provided a method by which the central government could assist the provinces to meet their growing financial needs while at the same time retaining a large measure of control of the tax system for fiscal purposes. To this extent they were an important element in the development of a centrally controlled policy.

Conditional grants had other influences, not always on the side of effective policy development. The fact

that there have been developed a number of programmes which are based on firm agreements between the two governments introduces an element of rigidity both in times when restraint would be desirable and when acceleration of expenditure would be in order. While it would in theory be possible to use these as vehicles of co-operation in periods when the stimulation of public expenditure is required or reduce them when restraint is the order of the day, the fact is that the objectives of the programmes tend to become fixed and alteration for purposes unrelated to these objectives is unusually difficult to achieve.

In one form the conditional grant offers scope for joint fiscal action. The idea that programmes of capital expenditure could provide a useful method for stimulation of the economy in periods of down-turn is of long standing. The 'shelf of public works' was an important part of the post-war planning at the Reconstruction Conference of 1945-46. Unfortunately the shelf concept has not proved workable for technical reasons of planning and in most cases due to the fact that the most necessary works do not lend themselves to stop and start tactics but are properly related to economic and social demands. There has been, however, a limited application of this in federal grants, particularly to local governments, for desirable if not always urgent improvements. The Municipal Improvements Assistance Loan Act of 1939 was an early example. The

municipal winter works programme of 1958 and the Municipal Development Loan Fund of 1963 were more recent examples. Such programmes are, of course, limited in their influence for stimulation and have no place in a policy of restraint. They do, however, hold some promise for useful development in the scope of their operation, particularly in that growing area of current interest, urban development.

The third area of intergovernmental fiscal relationship which has developed in the post-war period is that of equalization and stabilization. The process of equalization of provincial revenue sources has not been directly related to the management of the economy and its main influence has been to enable provinces to provide a more acceptable standard of public services. While it has undoubtedly made it more possible for provinces to use their resources in a way better suited to their assigned responsibilities by the mere process of providing a revenue base more adequate to the needs of the times, it must be admitted that there is little evidence of any direct effect of this policy on provincial fiscal activity. Stabilization, on the other hand, by providing provinces with a high level base under a substantial portion of their revenues, makes it more feasible for them to accept the responsibility of maintaining their expenditure at a level consistent with the needs of the economy, especially in periods of economic stagnation. The Royal Commission on Taxation

attaches particular importance to this factor in the process of intergovernmental fiscal co-ordination.

Economic Policy

In the field of economic policy the responsibility is more broadly divided between federal and provincial governments. The methods employed, as distinct from those of fiscal policy more specifically concerned with stabilization than with growth, are more direct and in this way more closely related to the powers which can be exercised at the provincial level. This situation, on the surface at least, seems consistent with the rather wide variation in regional needs and capacities in this country and it enables the regional governments to adjust the programmes to their particular objectives. However, in this very fact are some of the most serious hazards for the future of Canadian economic unity for, in their attempts to deal with the specific problems of their own regions, the provinces have in more than one case used special measures such as subsidies, loans, resource concessions and tax relief which, if carried to extremes, can result in serious interprovincial competition and a degree of disorganized development which would be contrary to the best interests of Canadian economic growth.

Under such circumstances the need of an effective degree of interprovincial co-ordination is clear. But what

may be even more important is that the Government of Canada should assume a basic responsibility in the reconciliation of the diverse interests of the various parts of the country. If it is to serve its true role as the government of all people in all parts of Canada, it must accept this primary responsibility.

Federal economic policy operates through a number of powers and by a variety of means. The national power over the principal sources of taxation can have important influences on economic growth, negatively as well as positively. The tariff has been a fundamental weapon in this field often operating with strong regional bias while seeking to accomplish the total national objective. More specifically, policies of trade and commerce, including trade agreements with their quotas, credit arrangements and the like, have played an important part. Transportation policies, particularly with respect to railways, have always been a vital influence in Canadian growth. Employment and labour policies, vocational and work-training programmes and immigration policies have all been used for economic purposes. More recently, direct methods of subsidy through tax concessions or direct payment have become an important factor in industrial development promotion. And there are always the special programmes which we generally associate with agriculture although we find them in other fields as was the case of the St. Lawrence Seaway,

the Trans-Canada Pipeline and such developments as the South Saskatchewan and the Winnipeg Floodway in Manitoba. A substantial part of the departmental responsibility of government is devoted to the ends of development and in the last few years we have seen the creation of the Economic Council of Canada as a new and important instrument of this activity.

On their part the provinces possess powers which they often use to important effect. Like the federal government, they have powers of taxation which on many occasions in the past and particularly at the municipal level, have been used to assist industrial, resources and other development. Natural resource concessions have always been a favourite tool of provinces in industrial promotion. Agriculture, in turn, has enjoyed over the years substantial provincial and municipal tax concessions. Direct subsidization has been less common but is not unknown. Purchasing preferences are still in use, openly or covertly, although this process of artificial protection is being regarded with increasing suspicion. Provincial responsibility for highway transportation has assumed a growing part in the support of industrial and agricultural growth. A few of the provinces have important railway interests which they actively use for the purposes referred to here. Electrification policies have also become an increasing factor in recent years in in-

dustrial promotion. While more indirect, the provincial responsibility for education has been an increasing influence in the economic development on a wide front.

In more recent times, there has been a rapidly increasing interest in specific programmes of industrial development in most cases related to the credit support through loans or guarantees for new or expanding industries. In some cases provinces have assumed their role through the development of industrial estates which provide physical plant facilities to wanted industries at rates which, if not actually subsidized, are usually highly favourable.

The problem that must be met with in all these regional federal-provincial attempts is that by their nature they are designed to artificially support situations which are often incapable of existing on their own. The additional factor of competition with private or other public resources designed for the same purpose must also be considered in assessing the value of such plans, for while to some extent they merely supplement other schemes in certain cases, unless co-ordinated, they will provide a competitiveness which can work only to the benefit of the recipient. Competition between provinces must be considered and if this assumes any sizeable proportions it may only work to the detriment of those provinces that can least afford to play the game. So far at

least, the various schemes seem to have done very little overall to narrow the margin of regional economic disparity although it might be argued they have stopped the situation from becoming more unbalanced. The Economic Council of Canada has directed a good deal of attention to this regional development problem and in its 1965 review noted the following:

"It is the regional differences in industrial productivity rather than in economic structure, which exert a major influence on regional income disparity...it appears that the varying regional distribution of economic activity by sector exerts relatively little influence on inter-regional income disparity, and changes in structure have contributed only moderately to narrowing the disparity over time." ⁹

While the interests of all levels of government are inevitably linked in the development of national economic policies, essentially the problem of growth as an inter-governmental interest is most clearly pointed up in the need for measures adjusted to varying regional demands.

If we accept the principle that government intervention and participation in regional development is a desirable feature of public policy, then in a federal state, given the complementary nature of the powers involved, federal government participation is surely required in the co-ordination and content of any logical

⁹Economic Council of Canada, Second Annual Review, 1965, Ottawa: Q.P., p. 126.

developmental policy. If there is not to be conflict and resultant waste, some means must exist to determine which regional schemes are most beneficial to decide what type of action is required and what measures are necessary to prevent rivalry and competition from minimizing the economic growth attainable.

Increasingly economists now seem to accept the need for a national policy of regional as well as total development and urge that some policy guidance should logically come from the Dominion Government; for example, T.N. Brewis writes:

"Competition for industry at the provincial level has important implications for the nation as a whole. If there is to be a national policy for regional development the actions of individual provinces cannot be a matter of indifference to the federal government,"

and

"The first essential is to clarify policy objectives at the national level, objectives that will certainly require agreement and approval by the provincial governments if they are to be implemented effectively." 10

Obviously there must be some criteria for assessment of the relative merits of policies, some of which will contribute to the national growth and others which will benefit regional growth at some cost to the total advance.

¹⁰T.N. Brewis, in Canadian Economic Policy, MacMillan, Toronto: 1961, p. 324.

Some agency of co-ordination and co-operation will be necessary to make the needed adjustments. The Economic Council of Canada can provide a technical base for this through development of its associations with its provincial counterparts, but some advance at the policy level is surely required. This may perhaps be found in the new federal department for regional development which is now being formed.

A more pragmatic reason for joint involvement is in the deficiency of financial resources in the areas where action is most urgently required. In the Maritime Provinces, J.N. Wolfe¹¹ has argued that the resources required are well beyond the capacity of the provincial governments to pay. Federal participation in regional development is moreover essential not only because it can provide the necessary financial assistance, but also because it has such vast responsibilities that its broad national economic policies must be, to a large extent, consistent with the demands of regional growth, if they are to be viable over the long term.

Some advances have been made in the areas of joint participation. The A.R.D.A. programmes, the Fund for Rural Development, the Atlantic Development Corporation,

¹¹J.N. Wolfe, Taxation and Development in the Maritimes, Canadian Tax Paper No. 17, Canadian Tax Foundation, Toronto: 1959.

the Cape Breton experiment, are all evidence of an acceptance of the mutuality of interest. But there still remains the basic problem of relating the needs and efforts of regional development to the needs and efforts of total national growth. It is this part of the problem which seems to call for more detailed and sophisticated treatment than it has yet received.

7. THE PRESENT STRUCTURE OF LIAISON

The increasing demands of governmental responsibility have resulted in the rapid growth of intergovernmental involvement. No longer is it practicable, and in fact it rarely has been completely so, for each jurisdiction to attempt to carry out its assigned responsibilities without regard to what others may be doing.

Thus we have on our hands an extremely complex network of intergovernmental relationships. For its purposes, the structure may be large enough. Unfortunately, taken as a whole, it has grown in response to individual demands (and in this it shares the distinction with much of the internal structure), rather than developing to meet the total requirements of the situation.

The liaison structure we have in Canada, if it can be called by such a name in its present state, is extremely diverse both in form and effect. It covers a broad area from the top where formal matters of total government policy are dealt with through a spectrum of formal administrative arrangements to the day-to-day contacts often devoid of formal sanction, which go to make up so much of the stuff of public activity. A good deal of this activity is in specialized areas but so much of it influences fiscal and economic policy in some way or another that it is difficult to draw a line. Our examination here of existing

machinery has consequently ranged somewhat more widely than might be considered warranted by a strict interpretation of our terms of reference.

In dealing with the present structure, we will first undertake a general description of the machinery and then proceed to examine and assess its operations under the demands which are currently being made upon it.

A. A General Description of the Machinery

(1) Formal conferences and committees

The formal machinery of intergovernmental liaison in Canada takes on a wide variety of forms. There are the institutions, organizations, conferences and committees which exist on a more or less continuing basis. An appendix contains an inventory of some one hundred and seventy such bodies and the list is constantly changing and generally growing. We do not propose to examine each one in detail but it is possible to identify a number of different classes within this listing. We have found it useful for this purpose to borrow in a general way the classification used by Edgar Gallant in his analysis of "The Machinery of Federal-Provincial Relations" in Canadian Public Administration, December, 1965.

(i) federal-provincial committees

These are the standard type of consultative bodies and while generally with some formal structure, they vary

substantially in their construction and method of operation. They are composed of ministers and/or officials, both federal and provincial, who come together as official representatives of their governments to discuss matters of mutual interest, ranging from broad policy questions to some of a highly technical and specialized nature. They must be accepted de facto as committees of government even though in most cases they lack formal statutory existence, for they operate through the participation of individual governments, each in its own right. These committees are of different types. Some are considered to be continuing bodies for consultation and these generally meet with some regularity and thus tend in many cases to develop an institutional character. Other committees are not given such a formal identity. They come together on an 'ad hoc' basis and are not regarded as a permanent consultative body in the same sense, although their availability for meeting as required is fully recognized. Still others may be referred to in the current jargon as 'task forces.' While they are usually formally constituted, by order-in-council or ministerial decree they have a limited task to perform and a terminable existence. It is intended as a rule that they should disappear from the scene after their assigned work is complete. Such operations as the Tax Structure Committee or the Committee on Financial Institutions and Securities Regulation could properly come under

this last classification. This of course does not mean that they may not develop as a permanent or continuing form should circumstances require it.

The Government of Canada, by virtue of its position, is generally, although not in every case, the central co-ordinating influence and provides the chairman and secretarial services.

(ii) interprovincial committees

Strictly, these might be excluded from a survey of federal-provincial liaison machinery, but the extent of federal interest is sufficient in many cases to warrant their inclusion. They are, as a rule, consultative bodies of some formal structure, composed of provincial representatives, ministerial and/or official. They convene for the purpose of considering general matters of interprovincial interest, for the exchange of information and experience, or for the purpose of developing joint approaches to the central government.

The pervasive influence of the federal interest is such, however, that in a good many cases while federal representation is officially lacking, the national government participates by having observers present. As a result, while officially interprovincial, these bodies thus may often take on some important elements of a federal-provincial role. The annual conferences of the mines ministers are an example. The provinces assume responsi-

bility for organization and in most cases take turns in acting as hosts. In some instances these meetings assume a regional character, as in the formally organized Prairie Provinces Economic Council and the informal meetings of the Premiers of the Atlantic Provinces.

(iii) advisory councils

There are several groups now in existence which are appointed under federal statute or order-in-council to act as advisory bodies to federal ministers. These councils, where there is provincial representation, function as federal-provincial committees to a certain extent. Some of these groups have only official government representation, others are a mixture of officials and representatives of private organizations. A few exist which have no official representation whatsoever, although they may have a regional representation and act in an advisory capacity. These do not fit into the scheme of our study of inter-governmental bodies. There are also some such councils or committees which are intended as administrative advisory bodies to federal departments. One also finds on occasion advisory bodies to provincial ministers in fields of special interest, where federal officials act in an advisory capacity. The Dominion Council of Health illustrates this advisory approach at the federal level, as do the Agricultural Co-ordinating Committees in some provinces, at the provincial level.

(iv) quasi-independent associations

There are certain bodies which are made up wholly, or almost so, of ministers and/or civil servants. They are supported largely by public funds but are not federal-provincial committees in the usual sense of the term. They are constituted as associations and function to some extent as professional organizations or special interest groups. While this aspect varies from case to case, their stimulus comes more from within themselves than from the governments, and the participants, at least in theory, function more as association members than as representatives of governments. However, they serve the purpose of bringing together people in a particular field from all governments and they can contribute to a considerable extent to intergovernmental consultation and co-ordination. Examples of such bodies include the Canadian Council of Resource Ministers, which has its own letters patent and its own staff, the Canadian Association of Administrators of Labour Legislation, and the Association of Canadian Fire Marshals.

(v) other

In many cases, the groups or conferences to which we have referred in the four previous categories will have sub-committees. Committees at the regional level are also found, composed of federal regional representatives and officials from one or more provinces.

Certain non-government organizations or professional

associations may also serve as vehicles for intergovernmental liaison. They have in most cases a substantial number of members who are ministers or officials from across Canada. When members come together to discuss their areas of interest, considerable intergovernmental liaison inevitably is a by-product of the meetings. The Canadian Good Roads Association and the Institute of Public Administration of Canada are examples of this type of liaison operation. Organizations of this kind are not included in the appendix.

(2) Other formal provisions

The other conferences and committees already noted are by no means the only vehicles for intergovernmental exchange. Many federal departments have regional offices located across the country which frequently have as part of their responsibility the facilitating of communication with provincial offices. Federal-provincial committees are often established at the regional level through them. The degree of delegation to regional offices varies widely and this, of course, affects the extent to which consultation can be effective at the local level. There are signs of increasing departmental interest in the approach.

The reciprocal of this situation could be considered as the establishment of provincial offices in Ottawa. Most provinces seem to have considered this approach at one time or another (including in one instance the ideas of minis-

terial representation in Ottawa) but so far only Alberta, which has had a permanent representative in Ottawa for some years with limited terms of reference, and Quebec which has a press office, have actually taken any action. There seems to be considerable reluctance to establish what many fear would be an additional barrier to communication between the departments of federal and provincial governments with like interests.

(3) Informal processes

Without doubt the most frequently used and often the most effective form of liaison is the informal day-to-day contact which is used in the ordinary course of business by both ministers and administrators. Much of this depends on the degree of development in the intergovernmental relationship and to this extent it can be a product of more formal channels. Conversely, more formal relationships can develop from personal and official contacts at the informal level.

Every day there are a multitude of contacts and communications between officials of both levels of government. These may be by telephone, letter or personal visit. Modern means of communication are increasingly becoming more heavily utilized in the process of intergovernmental exchange although there is still room for a great deal more to be done.

The facility with which these communications are carried on between government offices varies widely and depends on a number of factors such as the nature of the work, the experience of the people concerned and by no means least, the personal relationships. As a general rule, the longer that officials of both levels of government have been involved with each other in a programme area, the more likely it is that there will be good communication between them. In good part this depends on the development of trust, respect and often friendship between key officials. While we have been speaking primarily of relationships at the official level, much of the same can be said of ministerial contacts although here political considerations may provide a deterrent to open communications on some occasions. Another general observation is that the most well-developed informal consultative processes occur in the most specialized or professional areas of activity. Indeed, it has been observed that in many cases communication between governments in a specialized field is often better than communication internally between government departments. It seems possible even that in some of these specialized areas, the officials of both levels of government feel more identification with and even loyalty to their field of activity than to their respective governments. The results of this can be seen in the development of some of

the joint programmes.¹

The above comments have been made with reference to the relations of the two levels of government, federal and provincial. In some fields of activity, the same sort of thing occurs between officials of provincial governments, although generally to a considerably lesser extent. Inter-provincial communication tends to take on a regional emphasis. The four Atlantic Provinces have more communication between each other than with other provinces. The same to some extent can be said of the Prairie Provinces, and in a few fields at least, there seem to be well-developed relationships between Ontario and Quebec.

There is no easy way to measure or evaluate the different forms and processes of intergovernmental liaison. Each may be suitable to its particular area of operation and the circumstances of the times. What is clear is that there is extensive structure of intergovernmental liaison that has grown over the years. What is perhaps less clear is the extent to which the structure has adapted or is adaptable to the changing needs.

(4) Internal processes

While this study is concerned with intergovernmental

¹For comment on U.S. experience see E.W. Weidner, "Decision-Making in a Federal System," in MacMahon, Federalism Mature and Emergent, New York: 1962.

communication the effectiveness of this depends to a substantial extent on how well communication flows within governments. Governments use a number of devices to help co-ordinate their relationships with other governments. The use of a departmental division for federal-provincial relations (or in one case a department itself) for the purpose of facilitating communication with other governments and for internal co-ordination is sometimes found. In Quebec, for example, all significant intergovernmental matters are channelled through the Department of Intergovernmental Affairs, thus providing a means for ensuring consistency of approach in the various departments with general government policy. Ontario has quite recently developed a federal-provincial secretariat under the Provincial Treasurer and utilizes the assistance of outside authorities on an official advisory committee. The Government of Canada and a few of the provinces have cabinet committees for the purpose supported by interdepartmental committees of officials. Many other interdepartmental committees or groups are found on a temporary or continuing basis in respect of particular programmes. Little attempt seems to have been made however in any of the governments to involve the legislative branch in the process of intergovernmental liaison, even in a reviewing capacity.

The internal organization, while strictly speaking

not part of the machinery of government liaison itself, is nevertheless an essential ingredient in the effective development and use of any such machinery. One of the biggest obstacles to effective co-ordination of public policies often is in the lack of really effective communication within governments themselves. This is recognized by many ministers and officials. In the course of the interviews, for example, the complaint was frequently heard in the provinces that it was difficult to know with what office of the federal government a province should deal. A situation to which frequent references were made was the increased activities of the Privy Council Office in some areas which in the past have been taken care of through the Department of Finance. We understand a restructuring of the federal organization is proposed to meet this problem.

On the other hand, few of the provinces have solved the question themselves and with one or two exceptions effective organization for the co-ordination of inter-governmental activity is lacking. The situation is now at least being recognized and while special departments are unlikely to be required or justified in most cases, some greater internal efforts at co-ordination may be expected.

8. THE MAJOR FIELDS OF ACTIVITY

In the previous section we described in general terms the principal classes in the machinery of inter-governmental liaison. Rather than overwhelm the reader of this report with a detailed description of each phase of these activities except for some rather general comments, we propose to rely on reference to the inventory included in the appendix.

The inventory lists by main areas of activity, classifies by level of participation, by type, by membership and by frequency of meeting or periodicity. A brief description of the main role of each of these bodies is also given. A study of this listing with the description in this part should give a reasonably adequate impression of the wide variety of vehicles for consultation and the fields where it is fully organized and those where little organization exists.

The subject of the enquiry is, of course, limited to liaison on fiscal and economic matters. Many of the entries on the list would have indirect and limited fiscal and economic implications, but we have felt that it was desirable to give as complete a picture as possible. Hence this is a somewhat more extensive examination than might be deemed necessary by those who would apply rigid standards to our field of reference.

A. Central Government Activity

(1) General Government

Under this head fall the consultations concerned with policy matters at the highest level. The senior body is the Federal-Provincial Conference of the Prime Minister and Premiers which is convened by the Federal Government and is chaired by the Prime Minister. At these conferences the heads of government as a general rule are accompanied by ministers and officials as necessary. They discuss a wide variety of matters which are of prime importance to all governments. As a rule they have an extensive agenda. Reference to the published proceedings gives a good indication of the breadth of interest.

Federal-Provincial Conferences, or Dominion-Provincial Conferences as they have been called in the past, have a long history. The first was not convened until 1906 and meetings were sporadic until the 1930's. Since that time they have become an increasingly regular feature of the intergovernmental relationship and recently has been meeting regularly at least annually, although no plenary meeting was held in 1967. Despite its established use in the system, these conferences have never been formally constituted as continuing vehicles of federal-provincial consultation either by the constitution or by other statute.

In historical terms, inter-provincial conferences

to which we referred previously pre-date the federal-provincial ones, the first having been called by Premier Mercier of Quebec in 1887. They have been repeated at irregular intervals since, the last being the "Confederation of Tomorrow Conference" of November, 1967. An allied event is the Conference of Provincial Premiers which began meeting annually in 1960 to discuss general questions of mutual interest. The Government of Canada does not participate in these meetings although a federal observer has always been invited and one or more federal officials usually attend. The objects of these Premiers' Conferences are a bit vague but for the most part they have confined their activities to those matters where no direct federal interests have been involved. Whether this will continue in a lack of exclusive interprovincial matters of sufficient importance to continue to engage their interests is a matter for speculation.

There seems to be some possibility that interprovincial relationships may increasingly be concentrated on matters of limited or regional interest rather than on broad national matters. The presence of the federal government provides an essential element in most cases where positive results are required on a national scale.

(2) Financial and Economic Matters

While an attempt had been made on several earlier occasions to develop some machinery of liaison in this area, the last with two meetings of the Ministers of

Finance and Provincial Treasurers in 1959, it was not until 1964 that a successful effort was made to develop a means of co-ordinated approach to fiscal and economic problems.

At the plenary conference in Quebec in 1964, proposals were made by the Government of Canada which resulted in much the same group of ministers meeting as two different committees. The first of these, the Tax Structure Committee, had an assigned responsibility under terms of reference from the plenary Federal-Provincial Conference to act as a 'task force' with specific objectives. Its assigned job was to examine the allocation of the tax resources of governments in Canada in relation to their expenditure responsibilities. It also had other duties, one of which led to this present study being undertaken. The Committee's task was considered a terminable one related to the requirements of the situation at that time.

The second group was one of the ministers responsible for the finance portfolio in the federal and provincial governments. It was informally constituted like so many of the vehicles of liaison in this country. It was decided that the ministers should meet annually toward the close of the calendar year and just before the formulation of the next budgets to discuss the economic and financial situation in Canada and the various provinces. The intention was that such a discussion should give the

ministers guidance for framing their plans for the following year in a way which might be appropriate for the economic circumstances. The hope has been expressed that these meetings will increase in sophistication to the point where substantial harmonization of fiscal and economic policies may be achieved. There are signs that this aim may be realized.

The Federal-Provincial Continuing Committee on Fiscal and Economic Matters has had the longest continuing life of any of the groups which could be said to have a general policy advisory concern as against more specific programme activity. It is a committee of senior officials (in the most cases deputies of the finance ministers) representing Canada and the provinces, which was formed in 1956 by the Federal-Provincial Plenary Conference to exchange views and information on fiscal and economic matters and to deal with matters referred to it by agreement of ministers of the governments concerned. Since 1964 it has been concerned in considerable measure with its responsibilities for the staff work in connection with the Tax Structure Committee and the meetings of the finance ministers. This group would appear to have a central concern in any means that might be developed for the improvement of liaison in the fiscal and economic sectors. It is perhaps pertinent to note that there is a strongly held view that this committee should have a central co-ordinating function (or at very

least an overview) with regard to all federal-provincial matters which have fiscal and economic implications, in order that it may be able to advise adequately and assist its ministerial masters in their consideration of such aggregate policies.

The Economic Council of Canada sponsored one comprehensive conference on economic policy in 1965 with provincial government groups of like interest. Consideration is being given to the continuation of such meetings on a recurring basis. Study conferences have also been held with private and public groups in specialized areas. These "Conferences on Productivity Through New Technology" have examined problems in such fields as management, labour problems, data processing and the like. There would seem to be a field for greater activity in co-ordinating national and regional economic interest but the lack of a consistent pattern of provincial organization in economic research has been an inhibiting factor.

(3) Financial Institutions Regulation

This is a new area of intergovernmental interest stemming from changes in the financial system of Canada with the growth of "near-banks" and similar type institutions.

Ministerial and officials' committees in financial institutions and securities regulations were established in 1967 on a 'task force' basis to define rules and seek

co-ordination between governments in this area. The ministerial committee includes generally the finance minister and one other minister from each government. It is of interest to note that the Federal-Provincial Continuing Committee on Fiscal and Economic Matters was first proposed as the appropriate body at the official level for this purpose. Perhaps it is indicative of one of the problems of co-ordination, internal and inter-governmental, that a general co-ordinating role for that committee in the area of fiscal and economic matters is not accepted in all quarters. It was thus considered desirable to form a new committee although there was a substantial representation on it of Continuing Committee members. This new committee has a number of special sub-committees working on particular items within the general subject matter of its responsibilities.

Other Categories

The main categories in the inventory which follow heading "1. Central Government Activity" group the machinery by broad areas of government interest. As these are less directly related to the basic object of this study, the machinery will not be described in detail here, but will be referred to from time to time in later sections of the report as appropriate. Many of these broad areas, however, have to be taken into account by a

study that is concerned with fiscal and economic matters. Some are concerned with programmes which bear directly on economic development (e.g., agriculture, resources, industry, manpower). Others have to be kept in mind because of their important fiscal influences (and, at least indirect, economic effects) such as in health and welfare.

The situation varies from field to field. Agriculture has been a shared jurisdiction since Confederation and federal-provincial meetings have taken place over a long period. There are now a wide range of consultations, from general policy discussions at the ministerial level to very specialized consultations at the technical.

At the time of writing, the Education-Manpower-Labour sector is in a state of flux due to the revision of the federal role in education and manpower training. Existing consultative machinery is the vocational training area which had a long and generally successful life is now lapsing (or at least being fundamentally changed) while new approaches are being developed.

A noteworthy development in 1967 was the formation of an interprovincial council of education ministers. This is to be a formally constituted organization with a permanent staff and is an example of possible developments in areas of provincial responsibility. The embryo group is said to have played a useful role in helping to iron out some of the federal-provincial disagreements over new

manpower training agreements.

The Energy and Resource group includes the Canadian Council of Resource Ministers. This body is unique in the catalogue of intergovernmental machinery, being a corporate association of ministers. The annual Ministers of Mines Conference is a bit of a hybrid organization, bringing together as it does provincial ministers and officials, industry representatives and federal observers.

We find a great many groups operating on a regional basis in matters of water resources. There is a variety of bodies in other resource fields.

The Health and Welfare sector has been the centre of federal-provincial consultation for many years and particularly in the post-war period. Interests have been broad, ranging from policy considerations at the ministerial level to very specialized studies (especially in the health field) in numerous technical committees. The advisory council device is used for federal-provincial consultation here. A most notable example of this approach is the Dominion Council of Health which has functioned since 1919.

There are relatively few formal consultative bodies in the categories of Industry and Trade or Public Works-Housing, but there are numerous specialized committees at the official level in the field of statistics. There are a number of miscellaneous groups where the interests of this study are marginal and we have not considered them in any detail.

9. ASSESSMENT OF THE MACHINERY

Introduction

The assessment of the present structure of liaison has been based upon an examination of the situation through observation and experience, through written sources and documentary materials and, perhaps most important, through an examination of the views and attitudes of individuals, ministerial and official, in the federal and provincial governments in Canada.

Interviews and correspondence with people concerned have been as detailed as possible in the circumstances. The problem and its possible solutions have been discussed with some one hundred and fifty senior officials in federal and provincial departments. Interviews have been carried out with federal ministers and provincial premiers and/or ministers concerned in all but three provinces. In these latter cases, views were obtained, as far as was possible, from persons close to the appropriate ministers. While it cannot be claimed that government opinions as such are represented, we feel that a reasonable reflection of them has been obtained through this study of the opinions and ideas of those of influence and authority. We have not used a broadly-based questionnaire technique, considering it unsuitable to the purposes of this study.

No one with whom we talked was fully satisfied with the current state of federal-provincial fiscal and economic

liaison. This is not surprising. Probably at no time in our history has there been full satisfaction with inter-governmental processes. But with political events of the last few years and the developing fiscal, economic and social complexities of our society, the demands have become greater, dissent has had more to feed upon and the concern as to the means of adjustment has become more vocal and more imperative.

Perhaps we should take some satisfaction from this for it seems to indicate at least interest in the continuing strength of the Canadian federation. We would be even more concerned than we are if there was a noticeable attitude of indifference based on the assumption of lack of importance and irrelevance of mutual interests to the problems of the day.

In our discussions we found that there were certain aspects on which general agreement could be found. There was a general recognition and acceptance of the fact that the machinery of intergovernmental relations, while important, was a secondary element in the problem. We would not want to make the mistake of placing too great emphasis on a matter which, while vital, is nevertheless not the primary element in the solution of the basic problem. Almost without exception it is recognized that the policy aspects of the intergovernmental relationship are the important ones. In a political process this is as it

should be but it is important that we acknowledge it. In short, unless there is a willingness on the part of governments, federal or provincial, to accept the fact that liaison as a part of co-operative federalism involves a limitation of initiative and the acceptance of responsibilities as well as advantages, little of substance is likely to be accomplished. To translate this into practical terms is more difficult. Even those ministers who think they are in wholehearted agreement with the concept of mutual involvement and responsibility find problems in developing this in a practical way when it means they must modify their own measures. The central question of the determination of relative expenditure priorities is a typical case in point.

The inability to convert a general concept into specific application illustrates one of the difficulties that must be faced. Most of those with whom we talked agreed with co-operative federalism as an idea. Some were prepared to accept it in the abstract as the logical working government form in Canada, but really with little idea of what this might mean in the long run. But in all too many cases we found an unwillingness, or at least an inability, to relate the principle to the practice and it is perhaps less interesting but nevertheless true that it is in the practice in particular cases that effective co-operation in government will succeed or fail. Part of

the trouble may lie in the fundamental state of uncertainty as to what kind of country we really want.

General Observations

In interpreting the information we have gathered, we have tried to avoid generalizing too much from limited cross-sections of opinion or placing too much emphasis on points of view which might not be representative. We believe in attaching considerable weight to opinions of widespread occurrence and consistency (and these were there, although in some areas the views expressed were distressingly diverse). We believe, too, in the value of impressions which emerge after pondering upon a large body of often diverse data, particularly as has been the case here, where it emanates from ministers and senior officials of long experience.

Before we launch into more detailed analysis, some general observations are worth noting. These emerge from a large number of these diverse views of informed and involved people from one end of this country to the other:

1. There is pretty common agreement on the need for improvement in our intergovernmental liaison. The amount thought to be needed varies with the different fields of interest and the background and prejudices of the individuals involved.
2. There has been generally less concern with the problem of communication at the federal level than

at the provincial. This is natural enough since a large part of the initiative for liaison is in federal hands and the machinery is more often than not under federal guidance. This should not be taken to mean that there is no criticism or seeking for improvement in federal circles, for many federal ministers and officials are deeply concerned at the progress of events. Both sides have good cause for concern. In the past, at least, in many provincial minds there has been a rigidity and a 'love affair' with the status quo in some federal attitudes that has been discouraging, irritating and even sometimes dangerous. At the same time there is little doubt that federal minds have often found some provincial attitudes self-seeking and even parochial. Both situations show some signs of change for the better as the problems become more and better known and better understood although the situation is by no means remedied as yet.

3. The more technical or specialized the area of consultation, the more harmonious and satisfactory the consultations are likely to be. Conversely, the more consultations touch on broad policy matters, the more difficult they tend to become (which is to be expected).

4. The greater the development of personal understanding (particularly among officials) the more chance there is of harmonious relationships. On less frequent occasion the opposite effect has been noticed.

The Extent and Nature of Consultation

It is probable that the basic concern is with the kind, quality and effectiveness of consultation rather than its volume. Opinions differ, of course, depending on the type of activity, the part of the country involved and the interests of the person concerned, but the general consensus is not that the opportunities for consultation are lacking in most cases (some would even argue the opportunities are so frequent as to seriously impair administrative efficiency through the demands on senior officials) but rather that the opportunities are not being seized. Part of the reason for this is laid to the lack of systematic organization and part to existing attitudes toward the responsibilities of federal-provincial co-operation. It was acknowledged in most of the interviews that we conducted that inadequate communication was an important factor, but those who had thought the matter through seemed in general agreement that it would be a mistake to ignore the fundamental fact that within intergovernmental relations there is a struggle for political power that is not always going to respond to mechanical means. In a federal state it would be illogical to expect such con-

flicts to be so easily resolved, for this struggle for power is characteristic of the nature of the society which made the federal form necessary in the first place. We may adapt and thus mitigate the problems, but we are not likely to eliminate them.

It is beyond the scope of this study to give in detail the various views and attitudes to specific inter-governmental relationships with which we became familiar in the course of our investigation. Perhaps, however, a few comments on some critical areas may serve to illustrate the extent of the problems which must be dealt with.

As we noted earlier, consultation tends to be most successful where the programmes of joint interest are firmly established and where there are technical bases on which judgments may be formed. Where governments and their servants are united by a common human interest, co-operation seems to come more readily, although there are exceptions even here. Probably the better-than-average relationships in health and welfare may be explained by this. Where physical resources are concerned, a more proprietary provincial interest is quite often found.

In newer areas, or those where there have been important changes in the nature or direction of policy, or where financial stakes are high, the situation is less satisfactory. There is often strong provincial feeling

that the liaison is quite inadequate and that an unwarranted degree of unilateralism is present in the federal activities.

In acknowledgement of this situation we frequently found a viewpoint, although not one generally well-developed in detail, which favoured more co-ordination at the policy level in matters related to objectives and priorities and to general matters of fiscal and economic policies as well. There seemed a willingness to accept federal leadership on the part of a good many, should it be forthcoming on a basis of willing partnership.

There is one point of particular significance which should be noted. The opinion was often expressed that the amount and effectiveness of consultation was closely linked to financial involvement. If many major shared-cost programmes are terminated (as the Minister of Finance proposed to the Tax Structure Committee in September, 1966), the view was current, both in federal and provincial circles, that the incentive to consult would be greatly reduced. There seemed to be little faith that the will to co-operate would remain as strong if direct financial consideration was not involved. It is interesting that those who expressed such views attributed these baser motives to others rather than to themselves, as they appeared to regard this as a most regrettable probability.

To assess the limits of our present structure, it is necessary to come back to a point that we have touched on previously. We make no apology for the re-emphasis for it is vital to the whole study. A frequent complaint encountered in our provincial interviews, both with ministers and officials, is well expressed in the words of one individual who said:

"We have meetings all right, but no consultation. We are brought together to be told what the federal government has decided to do."

The frequent use of the expression "fait accompli" in even the outer-most geographic reaches of the country might augur well for the future of bilingualism in Canada, but when combined with the complaint of a lack of involvement, it gives indication of one of the most serious causes of dissatisfaction with our present intergovernmental relationship.

To an unprejudiced observer, the complaint often may seem overplayed. But it does raise a pretty fundamental question: just what do we mean by consultation? One got the idea that some provincial representatives were saying that "True consultation occurs when the federal government hears my views and accepts them." No doubt the same attitude may be found among certain Dominion representatives.

We obtain a more precise view of what provincial people expect of consultation by an examination of a few of the areas where the situation of "fait accompli" was alleged to exist most strongly and where it was not found.

This attitude was encountered with some regularity in reference to fields of industrial promotion and development and in some resource areas, but probably the most common area of complaint was in the new approach to technical education and manpower training. Medicare was mentioned with some frequency and dissatisfaction was noted sporadically in a number of other areas. This dissatisfaction was seldom mentioned in connection with either the national health grants or the welfare programmes.

The evidence we have would indicate that the new federal plans for education and manpower were presented to the provinces at the Federal-Provincial Plenary Conference of October, 1966, with little prior intimation of what was coming, although the previous programme did have a terminable life. The new system was to go into effect on April 1, 1967. A specific complaint voiced by a provincial representative was that the first real knowledge the provinces had of the detailed nature of the proposal was when they received the documentation on checking into their hotels on the evening prior to the meetings. This incidentally was cited as a not unusual occurrence.

If these are the facts, there is little wonder at the resistance that developed. The concept, in the provincial view, would better first have been presented to

the provinces in general terms as an idea for their consideration and without any public commitment. There could then have followed a series of federal-provincial discussions to assess the acceptability of the new concept and to determine the most practical steps to be followed during implementation, if this was agreed upon. Only when all this had been successfully carried through, in this provincial view, should there have been any specific proposal. This would properly have been framed in the light of a full expression of the provincial views and an appreciation of the practical considerations. Admittedly these constraints on federal action are delaying in nature and the likelihood is that some provinces, at least, would not have been in agreement with the final proposals. But at least they would have been prepared for them and felt a part of the process. In these circumstances the federal plans could have been designed in a more practicable and workable form, even if the process was not the most expeditious in the short-term.

There has been a continuation of provincial criticism of the post-announcement consultations since October, 1966, especially as far as the manpower training sector of the programme was concerned. Here again the complaint is one of too little consultation and a resistance to being told what was to be done instead of being asked for views. Provinces did, of course, seize the opportunity

to express their opinions, but it was not with a sense of consultation but of bucking a decision which was already made. The dispute on the date of implementation was typical of the sort of misunderstanding that was prevalent. There was practically unanimous provincial pressure for postponement for a year to enable the practical details of implementation to be worked out, but at first the federal authorities declined to accept this view. The end result of all this was that, despite the joint nature of the programme, provinces concluded that no consultation was really desired by the Government of Canada since consultation implies a willingness to consider the views of others, although not necessarily to accept them. Obviously this is a prejudiced view of a special situation, but it is sufficiently typical of provincial attitudes, reasonable or not, and widespread enough to warrant our attention. It is only fair to say that subsequent discussions between the federal department and the provinces since seem to have been carried on much more harmoniously. It is unfortunate that the damage was done in the first instance, but this sort of thing illustrates what can happen through a lack of appreciation of the others' point of view. Perhaps it is important that people dedicated to progress should remember that everyone does not necessarily agree on the definition of what progress is.

Circumstances surrounding the introduction of medicare were somewhat different and the provincial complaints

rest on less secure ground. Here there was prior intimation of the fact that the federal government had a medical care programme planned for suggestions of such had appeared in the Liberal Party election platform and in the Hall Commission Report. Federal officials had made very useful visits early in 1965 to the provincial capitals to test provincial reaction to the main Hall Commission recommendations and if any provinces were not aware of what was in the wind they were singularly unperceptive. Even when the Prime Minister did officially announce the programme at the Plenary Conference of July, 1965, he tied only four guiding principles to it and, important as these were, medicare was less bound by federal conditions than any previous shared-cost programmes of a similar nature. Nevertheless many provincial people were not satisfied and argued that the federal government had committed itself to these four basic principles and should have had prior discussions with the provinces before doing so. One cannot escape a feeling that in this case consultation was being made the scapegoat of objections on principles which, for political reasons, were not always clearly expounded.

In contrast to the two previous examples there has been considerable satisfaction with respect to the conduct of welfare programmes and particularly with the development of the Canada Assistance Plan. Here the general concept was evolved and largely accepted by

federal and provincial governments before any actual programme was undertaken. Once the principle had been agreed upon, there was frequent consultation at every stage of the development of the plan, including the drafting of the legislation. The consultation took place at various levels, ministerial as well as official, and took different forms, including full conferences, bilateral discussions, visiting teams of experts, etc. Modifications were made to federal proposals to accommodate provincial points of view. Provincial officials in nearly every case expressed not only satisfaction but enthusiasm for the way this was done, saying they regarded the operation and the plan itself as a truly co-operative effort.

While the Canada Assistance Plan might be taken as an example of consultation as the provinces would like to see it, it differs in some important respects from the other cases. For one thing, it was not a radical new departure or potentially a politically controversial item, so it could be dealt with in a more open manner than in other situations. Nor was there any important question of initiative. In the other instances the federal government might have hesitated to proceed in such an open manner for fear of losing its national initiative. This raises some important questions: to what extent can the Government of Canada propose a major new programme without specifying in some degree the form it will take; is some

elaboration beyond mere principle or concept not required, either in Parliament or publicly? To what extent is it reasonable to expect federal ministers, who are also politicians, to forego the strategic gains of making major policy announcements? If we were to take certain provincial attitudes to their logical conclusion, no federal policy of substance in fields where some provincial interest, however slight or indirect, was involved, could be announced until it had been negotiated in considerable detail at the intergovernmental level. The impediments to change in this approach are not difficult to appreciate.

A good number of provincial officials recognize these difficulties. However, they argue that the federal government should still be able to present to the provinces in confidence the essentials of its intended new policy so that it could at least ascertain the direction of provincial thinking before it proceeded to the commitment of public announcement. The problems here of parliamentary rights and official secrecy have not been worked out and the approach, when tried with respect to the new fiscal proposals in the summer of 1966, did not encourage the federal government. On this occasion, proposals were given to the provinces on a confidential basis but, as is generally known, there quickly occurred a public discussion of these tentative and supposedly confidential matters.

Despite the acknowledged difficulties, it is obvious to nearly everyone that if we are to advance from our present state of mutual lack of understanding, we must work toward some better structure of consultation to go with a development of the trust and confidence that is so essential to any progress.

10. PATHS TO MORE EFFECTIVE CO-OPERATION

We have been examining the development of the present structure of liaison and the limits of its application to the problems with which it must deal. It seems quite clear that if we are to have an effective approach to the reconciliation of the differences that exist between the two constituted levels of government in this country we must be prepared to refine not only the political approach to the problems they face, but the administrative techniques as well.

As stated, we are not prepared to take any position which relies solely on machinery of liaison as a basis for a workable federal-provincial relationship. The problem goes much deeper to first principles. We must aim at the development of a constitutional structure on which such liaison can be based and on political attitudes which accept the conditions of co-operation as part of the rules of the game.

But to achieve this will take time and we do not necessarily have it. We would be delinquent if we did not provide the necessary means which would make it possible for the diverse interests now to be brought into a workable harmony. We see the machinery of liaison, particularly as it relates to the primary fields of fiscal and economic policy, as providing the eventual means by

which constitutional interests and political claims of the two levels of government can be brought into effective working order. In the meantime it has a practical job to perform within the limits of our present division of authority.

Our purpose here now is to examine the various ways in which consultation can develop if it is to be appropriate to the needs of our Canadian system.

The Forms of Consultation

We have seen in our earlier references how the existing vehicles of consultation and co-operation take a variety of forms, some formal, more purely informal and in many cases incidental to the conduct of the day's work.

It is not always clear just why one form should be used rather than another, and there are a wide variety of situations to support the use of the alternative approaches. Perhaps the most important operative fact that seems to emerge from our examination of these questions is that while committees are useful bodies for exploring an issue, seeking a reconciliation of differing views and for developing a consensus, they are not necessarily a good instrument for deciding issues or for taking executive action. Committees thus are often desirable in areas of relatively new activity or where there are new issues to be explored in established areas. They also serve a purpose in re-

capitulation and co-ordination of the work of smaller groups such as "task forces" and unorganized casual relationships which have been operating in a special segment of a larger area.

But despite its limitations we are heavily dependent on the committee system in the formalized processes of intergovernmental liaison. In most areas of joint interest there is a general acceptance of its value. In fact, some people seem incurably attached to committees as an answer to any problem that does not readily respond to individual attention.

How and when the device is used is, of course, a matter of judgment on the part of those involved. The advantages of regularity have in many cases led to the adoption of the annual (or more or less frequent) conference in the interests of continuity. But this can lead to an unnecessary institutionalization, particularly where the area of joint responsibility or interest is limited. Nevertheless, some structuring of the whole system would appear desirable not only to avoid unnecessary proliferation but in order to assure that meetings are called as required by the demands of the situations.

We should record here that a number of those interviewed were of the opinion that under the present system too many meetings were convened without adequate regard to the cost in time, money or inconvenience in relation

to what might be accomplished. On the other hand, however, there were complaints that discussions were not held when they were required. Unless some reasonably consistent formal approach is adopted, a heavy burden falls on the chairman and as this is usually the representative of Canada, that government may fall heir to more than its fair share of the blame when results do not measure up to advance notices.

Areas of Consultation

In the chapter on the present structure of liaison we outlined a system of classification of intergovernmental consultation. Here we propose to examine the functioning of federal-provincial committees and related bodies in some greater detail.

At the base of the structure of co-operation from which other activities stem is the federal-provincial conference. While we sometimes tend to limit our thinking on this to the meetings of first ministers and, of course, this is its most important manifestation in principle if not always in accomplishment, there are a number of off-shoots which have considerable significance.

There is often some difference of opinion as to what form the most effective vehicle of co-operation takes. Is it more useful for ministers to meet or can more be accomplished where those of administrative respon-

sibility take on the task of co-ordinating intergovernmental activities? A number of different views resulted from our enquiries.

One opinion was that the meeting of departmental ministers was the essential ingredient of action and that deputy ministers should act only in support of their ministers and should not have a separate role. This view was based on the attitude that once policy approaches had been resolved in principle, the working out of practical methods should be left to officials directly concerned with their implementation. The argument has some logic on its side but has a serious defect in practice. It ignores completely the fact that deputy ministers have been often the most successful participants in inter-governmental exchanges. This is not the place to enter into an examination of the role of the deputy minister, but it should be recognized that it is in most cases accepted as a unique one in which administrative responsibility and the policy advisory function are inextricably mixed. Frequently, and we believe quite properly, it is impossible to distinguish the point at which administration ends and policy responsibility begins. The deputy, in fact, provides a most useful and sometimes the only continuing bridge between the two.

On the other hand, some officials that we interviewed professed little appreciation of ministerial

meetings, regarding them as too politically oriented to be useful as a co-ordinating tool. This view seemed to regard the ministerial function in this area as a sort of high level public relations one, for the purpose of focussing on issues and establishing a proper rapport and an atmosphere of political goodwill. We believe that such a view shows a complete lack of understanding of the whole process of our government. Certainly it is not a view often found among those who have worked closely with competent ministers of the Crown.

The truth of the matter is that the federal-provincial relationship is a part of a complex political organism where each level of responsibility has its part to play and where the plenary conference of first ministers is the core from which all other forms must extend. Regardless of the many and varied forms that these relationships may take, there can be no doubt that under our present constitutional form effectively structured federal-provincial relationships are fundamental to the whole concept of co-operative federalism.

Interprovincial committees

With the growth of provincial interests and in increasing emphasis on regionalism in Canada, there have been some recent developments that suggest there is a trend toward the establishment of more interprovincial consultative bodies as opposed to those of a federal-provincial nature.

We have already mentioned the recent formation of the Council of Education Ministers in 1967. The provincial health ministers have been meeting annually for three years now and it seems likely that this will become a continuing body. The increasing pressures for water management have led provincial administrators of water resources to meet in 1967 and there is talk of regular meetings in the future. There is also some speculation that some of the old federal-provincial consultative bodies concerned with technical and vocational training may be reconstituted as interprovincial committees under the changed regime of responsibility.

In addition to the recent additions to the roll mentioned above, there are a number of interprovincial groups which have been in operation for some time including:

- the Premiers' Conference
- the Mines Ministers' Conference
- the Provincial Ministers and Deputy Ministers of Agriculture
- the Trade and Industry Council
- the Deputy Ministers of Public Works
- the Deputy Ministers of Forestry and the Chief Foresters.

There are as well a large number of other inter-provincial bodies which deal solely with regional matters or matters of technical interest to provincial (and some-

times municipal) administrations. The above-noted committees have been given particular mention because of these broader interests in subject matters of national significance which in many respects also fall within the interests of the central government.

Most of the older interprovincial institutions which have been listed have become federal-provincial consultative bodies to quite an important extent, in the sense that they have federal observers present who often take quite an active part in the proceedings. An important difference between these meetings and federal-provincial meetings as such is that the provinces organize, operate and control them rather than the federal government doing so.

Views as to the desirability of a proliferation of interprovincial committees vary quite widely among both federal and provincial officials. Some federal officials are concerned as they see a growing inclination to try to exclude the Government of Canada from consultation on matters having important national implications or to get all provinces consolidated on one position in dealing with the central authority on particular issues. Other federal people, however, welcome signs of increasing provincial responsibility and feel that the better formulation of provincial views will lead to greater efficiency in resolving federal issues. The experience of the

Council of Education Ministers in helping to settle differences in manpower training policies is quoted to support this.

The attitude of provincial representatives also varies. Some welcome the growth of interprovincial bodies saying that federal people have tended to dominate federal-provincial meetings and that it is valuable to be able to work out a provincial point-of-view without federal influence, direct or indirect, intentional or incidental. In certain quarters, one inevitably finds a concern, sometimes verging on the parochial, for provincial autonomy and a feeling that if the federal government participates actively in the consultative or co-ordinative machinery relating to a field of provincial jurisdiction it will tend to dominate and extend its power and influence in that field.

This view is by no means unanimous and some important provincial figures are unenthusiastic about the growth of purely interprovincial influence in areas of national significance. They seem to feel that the federal government supplies a cohesive force, the 'glue' so to speak, which is otherwise lacking. They feel it often can be a waste of time and a misdirection of effort to meet without the national government being represented, believing federal involvement will be required before most issues can be resolved. The feeling exists that

the federal government exists to deal with issues of nation-wide significance and that it makes little sense to exclude the federal presence from such discussions. They believe also that it is more efficient for the federal government to act as the central co-ordinator for intergovernmental consultation, that it can most effectively serve as the source and processor of information of developments in the various parts of Canada.

The impression we gained from the interviews was that the greatest support for interprovincial activity was in Quebec, with some to be found in Ontario. There was less enthusiasm in other provinces. This is not surprising in the circumstances of the power structure of the Canadian federation. The statement is a generalization and does not exclude the presence of an important body of opposite viewpoint in the different provinces, depending on the individual and his area of concern.

The confusion that exists in our present intergovernmental relationships is indicated by the support for the formation of interprovincial bodies, based on what in themselves are two quite contradictory reasons. It was alleged:

- that there was not enough federal leadership and the provinces were merely moving in to fill a vacuum.
- that there was too much federal leadership (or

interference) and the provinces were acting to protect their own interests.

In the abstract it is difficult to resolve these two opposite attitudes but in fact they often are heavily subjective and related to a particular field of interest. There does seem to be room for consideration of the formation of joint bodies in particular fields where the federal and provincial views could be considered together or in isolation as circumstances required without the development of numerous and potentially diversive institutions. One useful suggestion along these lines was that there should be basically one consultative body for a particular area of involvement which would meet first as an interprovincial body to permit purely provincial matters to be discussed and then when this is completed, move to act as a full federal-provincial body for matters of broader involvement.

Advisory Councils

We referred earlier to a consultative form which has been termed the advisory council. This device, which is a hybrid form of institution, has been used in a number of areas of federal-provincial liaison. These councils are not fully accepted as appropriate to their purpose and are questioned by some officials on two counts in particular. The first relates to the propriety of having an

employee of one government act as an advisor to a minister of another. This, the argument goes, can leave an official in the difficult position of serving two masters with all its implications in case of fundamental differences in policy between these two. Some regard the problem of dual responsibility as a quibble on principle and of no practical significance. They feel any possible problems are outweighed by the value of the cross-representation of people in authority. Some advisory council members rationalize their positions on the grounds that they are on a council as individuals and not as representatives of the government by which they are employed but the dual role is of important concern to others.

The second question relates to the presence of non-government members, which most of these groups contain. There is wide disagreement on the value or lack of value of such participants. Some officials have the view that outside representation provides a useful means for broadening of vision through new ideas and new approaches to the problems to be faced. Others regard it as a limiting factor in free discussion which makes real progress more difficult to achieve where problems of jurisdictional interests are involved.

On the whole, established experience would seem to have found some value in the advisory council at least in certain specific areas of public interest. The Dominion

Council of Health has been operating actively since 1919. It is composed of federal and provincial deputy ministers, with five outside members. The deputy ministers do not seem in most cases to find any insuperable problems in their dual role, although not all interpret it in the same way. Nor does outside membership appear to cause any serious difficulties in practice. The health field has a number of consultative bodies established on essentially the same basis - the Advisory Council on Hospital Insurance and Diagnostic Services, the Advisory Committee on the Health Resources Fund and several technical committees which report through the Dominion Council.

On the other side of the coin, the newly formed National Council of Welfare has been less successful. The Council seems to have some trouble in defining its role and we have noticed a lack of basic belief in its purpose on the part of many of its members.

As an interesting example of an advisory group with regional orientation, we have the new Regional Advisory Councils which are being formed in most provinces by the Department of Forestry of Canada. These councils are composed of both federal and provincial civil servants along with academic and industry representatives. They exist to advise the federal regional director on his programme for the area. Quebec has not, as yet, agreed to participate.

A rather more amorphous form was found in the former Advisory Council on Technical and Vocational Training, which included non-government members as well as civil servants. In latter years, these civil servants seem to have served not as government representatives but as individuals representing certain interested organizations such as the Canadian Association of Administrators of Labour Legislation. Under the new arrangements, the Department of Manpower has decided to form a new advisory council on manpower matters which will be without civil service representation.

A survey of the advisory council form leads us to believe that it can be of some value where there is a strong professional community of interest and where the issues, objectives and methods can be clearly defined, but that as part of the system of structured intergovernmental liaison it has only very limited application.

Quasi-independent Associations

We have included three organizations under this classification in the appendix for examination:

- The Canadian Association of Administrators of Labour Legislation (A.A.L.L.)
- The Association of Canadian Fire Marshals
- The Council of Resource Ministers

The first two are long-established and appear to be

highly regarded by their members for their usefulness in maintaining communication and in developing more uniform standards and practices. Essentially they operate as professional associations which work toward general improvement in their fields. However, they are composed of civil servants and are heavily subsidized by governments and to this extent form part of the machinery involved in the informal transaction of intergovernmental business, if not in actual negotiations.

The Canadian Council of Resource Ministers is an interesting development in a field of important federal and provincial interests, one in which provincial authority is of great consequence as the natural resources of the country are under provincial control. It had its antecedents in the "Resources for Tomorrow Conference" sponsored by the Government of Canada, held in Montreal in 1961. The Council has attracted a good deal of support, especially in some provincial circles, and it has been suggested as a possible prototype for joint activity in other fields of government interests. Opinions appear to vary widely on its usefulness to date, but it provides an original approach to the problems of liaison which warrants our attention.

The Council has been set up as a distinct organization incorporated under the Companies Act with its own letters patent. It has its own staff which, while outside

the civil service proper, enjoys some of the privileges of the federal service in such matters as superannuation. Its stated purpose is to encourage study of resource matters and to advise governments in the field of renewable resources. In practice, however, it is said not to do the latter but to act essentially as a consultative agency in co-ordinating governmental activities in its field, with some research responsibilities.

The Government of Canada and each of the provinces have one ministerial member, all of equal status. The chairmanship is rotated with an executive committee and a full-time secretariat provided for the organization. It is supported by pro-rated contributions from the member governments. There is a co-ordinating committee of officials formed on the same general basis as the ministerial membership.

To date the Council has sponsored some technical studies and has held one major conference on water pollution. There have also been discussions among its members in a number of resource matters. Some people interviewed felt that the Council had not yet really defined its purpose and was still searching for its place as an instrument in the scheme of Canadian federation.

The arguments favouring this type of structure were largely concerned with the following points:

- (1) it avoids the domination by any one member, particularly the federal government.

- (2) it provides a better atmosphere for the development of independent ideas and the promotion of studies; the negotiating stance is not automatically assumed.
- (3) it provides a better atmosphere for consultation which is not aimed at negotiation.
- (4) the permanent secretariat provides continuity and objectivity which is not always present if it is under the control of one member.

Some officials who support the idea on the basis of the above points and on principle concede that the Council has encountered some practical problems which they attribute ^{to} such special circumstances as the varying interests of the members, as resource portfolios are widely defined in the different parts of the country.

Some of those who are less than enthusiastic about the type of organization say:

- (1) The need in the resource field is for a consultative machinery at the policy level. While the Council purports to act in this way, on many occasions it is just not practical to regard the federal minister as one among eleven members when his responsibilities and powers are clearly different.

- (2) Ministerial committees are not appropriate bodies for research sponsorship as they have too much difficulty in agreeing on objectives. The results to date tend to support this view, as in its studies so far the Council has been able to publish descriptive material only; the assessment portion, which has apparently included some criticism of government programmes, has been withheld.
- (3) In practical terms the permanent organization is unnecessarily expensive and could tend to develop vested interests. A lack of objectivity is considered a possible consequence of its fixed geographical position.
- (4) The concept approaches the nature of a third level of government rather than being truly an intergovernmental co-ordinative body.

Independent Associations

The value of some independent associations is recognized mainly in the opportunity they provide for government people in different jurisdictions of like general interests to get to know each other better. Federal-provincial business often may be transacted during the con-

ferences of these bodies, particularly when the meetings are timed to coincide with other meetings. For example, the education ministers of the provinces have met at the time of the conferences of the Canadian Education Association. The fall meeting of the Federal-Provincial Continuing Committee on Fiscal and Economic Matters is usually arranged to follow directly after the annual conference of the Institute of Public Administration of Canada. These factors are probably of less importance than was the case when the organizations were first formed for the extent of the federal-provincial relationship is much more highly developed than it was at those times.

Bi-lateral Discussions

Apart from general meetings, involving all or most governments, bi-lateral discussions between the federal government and one province at a time can also be useful. There was a good deal of support for this approach. The federal team or "task force" which visits a province to work out some particular problem is highly valued in some quarters. This was particularly stressed in the health and welfare fields where there has been noticeable success in co-ordinating federal and provincial field efforts. The opinion was expressed that bi-lateral meetings from time to time at high ministerial level, to discuss impor-

tant matters such as priorities or policy change, might be one effective way of achieving better understanding and co-ordination without incurring the risks of unwanted disclosure which are unavoidable at full scale conferences.

However, there was a very firm opinion occasionally encountered reflecting distrust of regional concern for the bi-lateral approach, This centred largely in the fear of undue influence by Ontario and Quebec on the policies of the Government of Canada. At the opposite end of the scale was the view that the Atlantic Provinces received a disproportionate amount of federal care and attention.

Related to this is the whole question of the varying provincial influence as a function of variations in size and wealth. The reaction to this proposition varied from province to province but it would be true to say that in some form or other the domination of Ontario and Quebec is always recognized, usually accepted, but sometimes resented. In the Atlantic Provinces it is certainly recognized and accepted as a fact of life, reluctantly but inevitably. On the Prairies it is accepted but more clearly resented. In British Columbia it may not always be accepted but if it is, it is certainly with no grace. Neither Ontario nor Quebec would argue in theory for a preferred negotiating position but in fact both may act in a manner which acknowledges it and which makes federal recognition of their

greater importance inevitable in some form and extent.

Informal Liaison

A great deal of emphasis was laid on the importance of informal procedures, that is, contacts in the daily course of business by telephone, letter or personal visit. The development of effective informal liaison seems to depend a good deal on the nature of the field of activity and on the length of time that there has been intergovernmental involvement. In fields like health and welfare where there has been activity at all levels of government for a long time, people speak of the "old boy network" - the senior officials of all governments who keep in close personal touch. The importance of this personal relationship cannot be underestimated although we did get the impression that the best informal liaison exists where the formal structure is most effective. One complaint that was voiced was that the efforts of communication were one-sided and that senior federal officials were "desk bound" and too seldom visited their provincial counterparts to maintain communication and rapport and develop their own understanding of the world outside Ottawa.

Other Organizational Provisions

Brief reference is made here to some other provisions to facilitate liaison which we noted in the course of our study:

(1) Regional Offices. We found mixed reactions on the parts of provincial officials to the proposal that there should be regional offices of the federal government in provincial capitals. This idea is distinct from the growing approach in most federal departments to decentralization and is more related to the regional federal office as a channel of communication. Some provincial people rejected the idea, regarding the only effective channel of communication as being with head office, i.e. Ottawa. There was a feeling expressed that local decisions did not always work out the same way as did those coming from the top. On the other hand, there was an inclination on the part of many to regard regional offices as a step in the right direction, provided they were given enough authority.

A variation of this idea has been discussed on different occasions. It involves the appointment of a senior representative of the national government as a resident "commissioner" in each provincial capital. This was not generally regarded with much favour although a few people were impressed with the idea. The reluctance seemed to be due to a

fear of over-formalizing the federal-provincial relationship and to a concern that it would result in too rigid a channelling of departmental contacts to the detriment of effective administration. This view was frequently expressed by ministers. While it was recognized that the present role of federal cabinet ministers as the high level regional contact left something to be desired, the high combination of administrative and political skills that would be needed by an effective resident "commissioner" left most of those consulted in a doubtful mood as to its practicability. To what extent the newly formed federal department of regional development will perform this representation function is not yet clear.

- (2) Provincial Offices in Ottawa. As we noted earlier, two provinces - Quebec and Alberta - have already permanent representatives in the national capital although with limited influence and function. Some support for the idea of all provinces doing the same was found, even to the extent of a "Province House" which would be the centre for such activities. It was argued that such an arrangement would provide

an effective method for keeping on top of problems of mutual interest which might otherwise require special visits. But, on the whole, the reaction was unenthusiastic. Even though the advantages were recognized, it was generally thought that more effective liaison resulted from the direct contacts of those directly concerned. The fear of a 'road-block' to effective communication was much the same as that noted with respect to the idea of a federal resident "commissioner" in the provincial capitals. It is of interest that the two provinces which had had permanent Ottawa representatives have not seen fit to expand their rather limited sphere of influence and activity.

- (3) Consultant Services. A number of officials interviewed favoured the idea of the provision by the federal government of expert consultants in specialized areas (e.g., in health and welfare). Some, particularly in larger provinces, thought it unnecessary although conceding its possible value in the smaller provinces. Whether this would be feasible in the absence of a financial involvement is a point we have already raised.

(4) Other Paths. In the course of our examination of alternative routes, a number of isolated suggestions for improvement of the liaison process were encountered. These centred around the staff functions, an area where the inadequate supply of qualified people has caused difficulties for all governments, but particularly for the smaller and less wealthy ones. While there are distinct limits to what can be accomplished, there is good reason to believe that there should be greater attention paid to staff problems among governments, especially in areas of specialized technical qualifications. The very few who appeared to have given this matter much thought suggested that solutions should be sought through such devices as temporary staff exchanges, the provision of expert assistance on a loan basis in special circumstances, co-ordination of personnel qualifications and recruiting and the reduction of unrestrained competition and as well some co-ordination of staff training facilities and opportunities.

This is a very special field and perhaps somewhat more peripheral to our main concern in this study. But it must be accepted that

the vehicles of co-operation can only be used effectively if qualified people are available to run them.

Central Co-ordinative Functions

So far we have ranged rather widely in our examination of the relationships that exist between the federal and provincial governments in Canada. We make no apology for this, for while our terms of reference are specifically concerned with fiscal and economic matters, there are few areas of governmental interest which this term does not touch to some extent.

But we have referred to some specific instruments of intergovernmental liaison which are designed for and are concerned with the broader functions of central policy. These are, of course, part of the total structure, but as they are closely concerned with the particular aspects of co-ordination which are the objects of our study, they justify some more detailed attention.

By custom and by the ever-present influence of the financial factor, those broad policy matters became the particular concern of the finance ministers and officials and only to a lesser extent of the other agencies of government where their activities are related to questions of fiscal and economic policy.

This concern extends beyond the limits of budgetary

and financial policy, often into particular areas of governmental activity which may have influences on total policy. Nor is it purely a matter of the co-ordination of external relationships. To an important extent, influence must extend into these internal workings of government which can influence the course of the federal-provincial relationship. The whole question of government priorities is an essential part of this problem, for a financial commitment in one area may prejudice commitments in others where there may be quite different implications for the inter-governmental relationship.

Two particular groups are central to this whole area, the committee of finance ministers and the Federal-Provincial Continuing Committee on Fiscal and Economic Matters.

Earlier we spoke of the minister of finance committee which in its re-established nature as a continuing body is a fulfillment of earlier efforts to develop some means of understanding among responsible ministers of the central and provincial governments. This group had a rebirth in part at least related to the restoration of active interest in detailed fiscal co-operation that came with the founding of the Tax Structure Committee in 1964. Since that time, through its role in the fiscal and economic field and by its decision to meet regularly to discuss budgetary and related matters, it has come to assume a more central place in the scheme of things.

If the objectives of a more coherent fiscal and economic policy are to be realized, there are a number of important areas of mutual interest where frank and private discussions must be a preliminary to any consensus on the kinds of actions that must be undertaken. Important elements which must be taken into consideration here are those of economic forecasting, budgetary proposals, including some greater efforts at the development of a workable system of priorities, capital expenditure timing and borrowing co-ordination. This is a large order to be filled and it is not going to be accomplished by annual meetings alone. As we have already said, success will involve a continuing commitment beyond anything which has yet been conceded.

It is in respect to these responsibilities that the Federal-Provincial Continuing Committee on Fiscal and Economic Matters assumes its real role as the technical arm of the ministers' group. This is not new for since the first attempts at the establishment of a finance ministers' committee in 1959 the Continuing Committee has acted more or less in this fashion. Since the formation of the Tax Structure Committee and the revitalization of the finance ministers' meetings, its activities in this respect have multiplied. It is true that the Continuing Committee was originally established as an official group under the plenary conference but at that time (1956) conditions were very different and the development of a more particular

part in recent years warrants a re-examination of the relationship.

What must be recognized is that while the finance ministers and the Continuing Committee have an important part to play in fact, achievements of the kinds required in this area of aggregate fiscal and economic policy cannot be reached in isolation from the total stream of governmental activity. The boundaries of fiscal and economic interest generally extend quite deeply into particular programmes. This leads to a general concern for overall co-ordination of the federal-provincial machinery. While some we spoke with felt that this was a role that could continue to be performed by the Continuing Committee as in the past, others felt that the area of the inter-governmental interest was becoming too broad and that the link should be through the plenary conference. This would often require different people than would normally act on the Continuing Committee.

If it is accepted that the plenary conference of first ministers should assume the main co-ordinating role in federal-provincial relations, it may be necessary that it have its own support group of senior officials. Such a group would presumably differ somewhat in composition from the Continuing Committee although it would be surprising if there were not a good deal of overlap in membership and interests.

Intergovernmental Secretariats

As the structure of intergovernmental consultation becomes larger and more complex, the problems of effective staffing multiply. While in some aspects the problem is a technical one, in other important ways it involves some vital matters of political interest and principles.

Under the present loosely organized system, the practice with few exceptions has been for the federal government to provide the necessary secretarial staff and facilities as and when required. Usually this is done in a somewhat informal way through the department most directly concerned. Occasionally, in some established intergovernmental organizations, a federal official has been designated as the executive secretary on a continuing or permanent basis. In intergovernmental bodies, the host province usually assumes these responsibilities but the lack of any continuing organization has sometimes resulted in rather loose arrangements for secretarial work, especially with respect to such matters as the agenda and reports.

The obvious alternative is, of course, the formally organized secretariat or staff organization. This could either be specifically employed for the purpose or more simply could be made up of federal and provincial civil servants temporarily seconded to serve in this capacity.

There have been a few recent developments of permanently staffed committees. The first to be established was a secretariat of ten or so for the Council of Resource Ministers. More recently the provincial ministers of education, having decided to form a permanent council, elected to have a large staff of some thirty-five people on a permanent basis for the purposes of the secretarial and research interests of the council.

The method of seconding federal and provincial civil servants came closest to actual practice in the period of the Tax Structure Committee's activities from late 1964 to September 1966. In this case a senior federal official was designated as secretary although on a part-time basis only. He drew upon the staffs of the various governments for varying periods of time to carry on special research projects for the committee. The responsibility of the secretary was clearly recognized as being to the committee and not to his employer, the Government of Canada, when he was engaged in Tax Structure work. The experience seemed to indicate that these arrangements while not easy can be satisfactory where the right people are involved and the responsibilities are clearly understood.

The ideas of a permanent secretariat is by no means new. But until quite recently the pressures of inter-governmental organization have not been sufficiently great

to offset the objections which have been advanced against such formalization. There tends to be quite a wide difference of opinion as to the value of a full-time secretariat but the balance now seems to be moving toward a general acceptance of the necessity for some form of central staff organization.

The same pressures do not apply with equal force to the subsidiary groups. Here the present system of informal staffing by the federal or, on occasion, the provincial governments seems adequate to the demands made in most instances. However, it may be where a substantial and continuing activity is required this will not always be the case.

Those who favour the ideas of a permanent staff organization do so largely on the grounds of efficiency, continuity and objectivity (in provincial minds, this last meaning, in part, freedom from federal influence). Those who oppose do so for a number of reasons:

- (1) a concern that a third level of governmental service is being created free of direct responsibility to the electorate. This is not significant in the purely secretarial aspects, but as demands grow, influence grows with it. The inbred capacity of such groups to expand in size and power is generally accepted.

- (2) a belief that an independent secretariat would be inconsistent with the federal form as we have known it where traditionally the co-ordinating role has been the responsibility of the national government.
- (3) a reluctance to accept what is considered an unjustified additional cost.
- (4) a belief that such organizations are difficult to staff and to control, particularly in the absence of any clearly defined channels of responsibility.
- (5) a skepticism as to the capacity of any such body to serve eleven masters, leading to the belief that in all matters of importance it would be by-passed in favour of bi-lateral contacts.

There appears to be no clear consensus. Ontario and Quebec perhaps favour the concept more than other provinces. The main argument in favour tends to be the essentially practical one of whether an extended and more complex system of liaison can operate successfully without an adequate structure of support. The argument against is strongest on a matter of principle - whether such an approach is fully consistent with the role of the national government in the federal form.

Internal Arrangements

While our first concern was with the intergovernmental relationships, we constantly came up against the problem of internal organization. A cross-section of opinion within most governments revealed a surprising if varying degree of dissatisfaction with the communications within the governments themselves. This was noted with respect to the policy making responsibility where ministers on several occasions acknowledged that internal communications and co-ordination was less than adequate. But it also extended to inter-departmental matters and even on occasion to attitudes and activities within departments themselves.

If this situation is a hazard to people within governments, it must all the more create problems for those in other governments who must try to co-ordinate their activities with others. Their willingness to co-operate is thus often diverted and frustrated by the very difficulty of knowing with whom they are supposed to deal.

The situation is, of course, more difficult in larger units and it is in these that steps are being taken to meet the problem. Quebec has its Department of Intergovernmental Affairs in a co-ordinating role. In some others the responsibility has at least begun to be clarified. Steps are being taken by the Government of Canada to clarify what to most provinces has been a confusing mixture of responsibilities.

There were different views on the extent of the changes needed. Some of those consulted felt that an organizational unit specifically charged with co-ordination of responsibilities for intergovernmental activities was essential. Whether a department or a division is a matter which would depend on individual demands and choice. Others were concerned lest over-organization should result in a limitation of departmental authority and the centralization of power in such a unit.

Regardless, however, of the varying attitudes and solutions, there was a growing acceptance to be noted of the need to improve the internal situation in line with the developing liaison needs.

11. ADMINISTRATIVE PRACTICES IN THE FIELD
OF PUBLIC FINANCE

The principal concern of this study is the development of proposals for improving the forms and methods of consultation between the federal and provincial governments in respect of fiscal and economic matters within Canada's constitutional framework. Earlier we discussed at some length the question of the actual relationship that exists between federal and provincial governments, formally and through daily business contacts. There are as well other important matters of what we might call methods and procedures which bear some reference here. These come under three main heads:

- (a) Accounting Practices and Public Finance Statistics
- (b) Budgetary Practices
- (c) Capital Market Procedures

It will at once be clear that we have made no attempt at detailed analysis of present practices. Nor have we attempted to suggest detailed technical improvements. This is a full-scale task in itself which has engaged the energies of many informed practitioners over a good many years. What we have done is to examine the overall situation to see in what direction efforts should be made to improve the sub-structure of information and activity on which, in the last analysis, not only effective liaison but effective government as well must be based.

(a) Accounting Practices and Public Finance Statistics

The present situation with respect to accounting practices is fluid. We are in a period of substantial change, not only in the concepts of the purposes of accounting and the uses to which it is put, but with respect to the methods, particularly as they are related to electronic processing.

The area for change is broad and often difficult to define. Although a great deal of time and effort has been given to improvements, on the whole there has been an understandable reluctance to embrace change where it is not demanded by internal requirements. The big problem we are faced with then is thus likely to be that of an attitude of indifference toward the uniformity which has as a necessary forerunner some rather substantial changes in terminology and procedure.

Any hope of useful improvement in this area must be closely related to the problem of further steps in reaching uniformity in the accounting systems presently operating in the eleven governmental jurisdictions of Canada. These systems range from accrual methods, through modified cash systems to a complete cash basis. Uniformity in accounting systems would inevitably involve a great deal of re-examination of what we may expect from today's systems and how this may be obtained from the techniques at our disposal. The day when the accounting system was

intended to provide only adequate audit control is gone. Today the idea of financial management embraces performance budgeting and application to a wide range of economic uses. The ability to utilize the same financial language, not only within the government sphere, but for government and non-government transactions as well, is an essential feature of many of these new requirements.

With the rapid development of new techniques and processes, many changes are being made in accounting procedures within governments. While we are aware of some growing attempts at achieving standardization as these areas develop, there does seem to be a very real danger of a further lack of co-ordination developing which may be even more difficult and expensive to adjust in the future.

The problem of statistical classification and terminology is of course closely related to the question of accounting uniformity. Here again a great deal of work has been done under the aegis of the Dominion Bureau of Statistics. A framework has been developed and the acceptance of a system of standard classification and terminology would undoubtedly be in the interests of all concerned. This is, of course, a problem that can only be solved by the joint efforts of those directly involved, but a successful approach requires a leader and the only organization likely to act in the capacity is the Dominion Bureau

of Statistics. It should be given every encouragement to do so.

We would briefly note a point made by the Royal Commission on Taxation when referring to the need for improvement in economic statistics:

"Analogous recommendations have been made repeatedly by other Royal Commissions. We shall simply state that the situation cries out for improvement. The data collection and processing agencies must be given more resources in order that they may meet their expanding responsibilities." ¹

(b) Budgetary Practices

In a previous section of this report we referred to provincial fiscal policies as they are reflected in the budgets of the provinces. It is not our purpose here to examine budgetary policy but rather to look at the use to which the budget is put as an instrument of such policy and to see how it enters into the problems of fiscal and economic relations.

Traditionally in Canada the budget has served primarily as an instrument of financial accountability. It has been the custom of governments to formulate their expenditure programmes and to announce by what means they will provide the revenues to support them.

¹Book 2, p. 83.

In late years the situation has changed substantially insofar as the use of the budget as an instrument of fiscal policy is concerned. This is more true of the federal budgets. The change is noted by Will in his study of the budget in the following terms:

"The importance of the budget as an instrument in the formation of economic policy is generally recognized. The connection between the budget, budgetary policy and the level of economic activity was firmly established by the Keynesian revolution and since then, by more than two decades of theorizing about, and experience with, counter-cyclical fiscal policy." ²

An examination of the budgets presented by the Minister of Finance of Canada in the post-war period shows that while the policies adopted may have been in dispute and the presentation not all that might have been wished, the budgets in nearly all cases did concern themselves with problems of stability and growth.

As would be expected, the provinces have been less concerned with this purpose of the budget. With a few notable exceptions provincial budgets have been and are financial accountability documents with considerable emphasis on the examination and justification of past and future programmes. While there has been increasing interest on economic development, there has not as a rule

²R.M. Will, The Budget as an Economic Document, Royal Commission on Taxation, Study No. 1, Q.P., Ottawa, 1966.

been any great attention paid to problems of stabilization. This is consistent with provincial attitudes toward fiscal responsibility.

Despite their insistence on a more important role in the financial affairs of the country, a role which is supported by the greater provincial-municipal share of expenditure responsibility, provincial governments so far in most cases have not become involved in the fiscal responsibilities that go with this greater part. The fact that we must face is that if provincial policies are to have a growing effect on the state of the economy, it will no longer be good enough to have completely independent policies with eleven governments budgeting without concern for what the others may be doing.

One aspect of this situation tends to be overlooked. There is a great deal of the psychological in the successful application of fiscal policy and the budget is the central instrument of this. Again to refer to the Will study:

"Yet the success of counter-cyclical budgetary policy depends to a great degree on the governments' ability to convince public and private decision makers that counter-cyclical measures currently being implemented or proposed are adequate to maintain economic stability." ³

This being the case, it is an additional incentive for

³Ibid., p. 3.

some sort of relationship being established between provincial and federal budget announcements. Under the existing circumstances, the public has every excuse for being confused.

There are two principal problems to be solved if the budget is to assume the place in total fiscal policy that the situation demands. First, there is how we can achieve the acceptance of all the governments of their respective responsibilities. Second, there is the question of how, in the light of this acceptance, it becomes possible for the budgetary practices of federal and provincial governments to be developed in such a way that the necessary intergovernmental co-ordination in fiscal and economic policies is achieved.

Not a great deal more can be said on the first point other than to emphasize a factor which we have stressed all through this report. If provincial governments are to have a role, even a complementary one, in fiscal and economic policy, they must be prepared to act in a manner consistent with the responsibility and in its turn the federal government must be prepared to accept and use that co-operation to the fullest possible extent consistent with its own fundamental responsibilities in the federation.

The second question of budget practices is not an easy one to sort out for, while the process has many

aspects in common, adapting it to a co-ordinated fiscal and economic policy involves a good number of practical and political difficulties.

The budget procedure in the Canadian provinces is fairly well established by the demands of the legislative session and the fiscal year. Legislative sessions in most provinces start sometime between mid-January and mid-February, lasting through until late April or May, although in Ontario and Quebec a late fall start and a much longer session is not unusual. Budgets, in most cases, are presented in March or April and provide the financial explanation of the governments present and future policies. It is not the practice for provinces to use the procedure of budget resolutions, as used in the Government of Canada, to put tax changes into immediate effect with the result that while proposed changes are generally announced in the budget they do not become effective until legislative authority has been obtained. It is unusual, although not unknown, for provinces to present supplementary budgets for this purpose.

With the Government of Canada, the situation is somewhat different and the presentation of the budget may vary over a considerable period from as early as February to as late as June. Nor are supplementary or 'baby' budgets rare and there is an increasing acceptance of the need of flexibility they or some other method can

give, if fiscal policy is to be practiced in any useful form.

It is not likely to be possible, or perhaps even desirable, for all budgets to be brought down at the same time. But if there is to be that greater co-ordination of fiscal policy which so many see as an inevitable consequence of current trends, some workable method will have to be developed for cross-reference and adjustment of budget changes among the eleven governments involved.

Improvements in terminology and in statistical and accounting approaches are important technical steps which are prerequisite to the co-ordination of budgeting practices. These improvements will be difficult in themselves, involving many compromises in matters of technical approach. But useful as they can be, they are secondary to the more fundamental matters of the realization and acceptance by all governments concerned of the nature of the modern budget as an instrument in the formation of fiscal and economic policy.

But it would be self-delusive to believe that in a federal state like Canada it is going to be possible to achieve close co-ordination in basic fiscal and economic policy formation by purely pragmatic approaches. If such an objective is to be reached it would seem necessary that there be a greater acceptance of the need of some institutions for the co-operative process, although with-

in the framework of proper parliamentary responsibility. We have the examples of other federations on which to draw for this purpose.

So that it may be clear why this is a difficult assignment, we might briefly examine some of the constraints that operate against easy co-ordination:

- (1) Secrecy: The question of the traditional secrecy of the budget is always likely to involve difficulties for co-ordination. While some steps have been taken by the minister of finance and provincial treasurers in the exchange of forecast data prior to budget presentations and some interesting proposals made for extension of this, much more needs to be done. On the whole, however, the scope for free exchange of confidences is not as unlimited as we sometimes like to imagine in our more optimistic moments. Legislative bodies (and caucuses) as a general rule do not take kindly to others being privy to government policies before they are themselves. This does not have to mean there can be no bonds of understanding between governments. But it does mean that no formal pre-budget agreement on policy is likely to be possible, at

least under present circumstances. The experience with classified data has not been such that would encourage much extension of its exchanges in sensitive political areas.

- (2) Political Advantage: Budgets are statements of government financial policy. But while they have the status of official government documents, they are at the same time probably the most important political statements in substance made by the government each year. It would be expecting more than we should to believe that when important political benefits are expected to accrue, governments will easily enter into accords with other governments, often of different persuasion, where this will dilute or destroy the impact of the budget as a political instrument.
- (3) Objectives: Perhaps the most important barrier of all to co-ordination of budget practices does not lie in the mechanics at all but in the basic question of policy objectives. It is important that we appreciate these difficulties in order that we do not develop expectations from procedural

improvements that cannot be realized. To illustrate it is not hard, in view of the great regional and economic diversities in Canada, to imagine a situation where there would be substantial difficulty in reaching agreements on the matter of regional development with some provinces favouring policies directed toward the maximization of return while others urged attention to the upgrading of economically distressed areas. We have already seen evidence of this conflict.

- (4) Timing: While timing is perhaps of somewhat less importance than we might at first assume, it nevertheless has some important influences. Under existing procedures it is mainly of consequence with respect to the influence of federal budget policies on provincial plans. As the federal budget is nearly always brought down well after provincial policies have been developed, its effects may be important. As between provinces, the situation does not appear to be a matter of first concern. However, if we were to enter into an era of close policy co-ordination, the situation would

not be the same. Not only would there be need for policies to be adjusted to each other, but it would be necessary that public knowledge of such proposals should come at much the same time, otherwise any effect could be badly diffused. A very important aspect of budget proposals may be not what they actually do but what the public expects from them and what they expect from the public.

The actual process of budget-making, of course, begins long before the budget is presented. It is in this sense that the need for consultation at the policy development stage is emphasized. If the consultations of the ministers of finance and provincial treasurers continue to develop successfully, many problems may be solved. The question of co-ordinated budget procedures then becomes a much simpler one of mechanics based on established principles although actual joint decision-making in such matters hardly seems likely or even desirable.

But presumably no matter what steps are taken there will always be situations where reconciliation of determined policies will be required. Inasmuch as the federal budget has the greatest potential for influence and effect on other budgets, it would be more convenient if it could be presented before the provinces bring down theirs. But

this will often not be possible and if, as will happen, there are certain matters of federal budget policy that affect the provinces, they would appear to have three alternative courses of action open to them:

- (1) they can live with the changes until the next opportunity of dealing with them arises.
- (2) they can bring down special supplementary budgets or legislation.
- (3) they can arrange for the necessary temporary powers by order-in-council, subject presumably to subsequent legislative confirmation.

Improvement in budgetary practices is an essential aid to better fiscal and economic co-ordination but it is only a means to an end and is not the fundamental issue itself.

(c) Capital Market Procedures

One of the most persistent questions that crops up in intergovernmental relations in federal states is that of the operation of the various jurisdictions in the capital markets. The reliance of recent years in Canada on monetary policy has added to this emphasis on debt, for as the Royal Commission on Banking and Finance noted

"...monetary policy and debt management...link together to bring about changes in economic activity through their combined influence on the terms and conditions prevailing in financial markets."

While provincial and municipal debt are in a somewhat different category from the debt of the Government of Canada, the markets for government securities are closely linked. In a somewhat less esoteric fashion, the growth of demand of provincial and municipal governments and their agencies for borrowed funds, combined with recurring periods of shortages in capital funds, has added to the interest in market procedures.

Attempts to develop some system of central control goes back a good many years. Probably the most notable step actually made was at the Dominion-Provincial Conference of 1935 when a sub-committee of the Conference examined in some detail the concept of a national loan council patterned after the Australian model. The Rowell-Sirois Commission would have dealt with the matter by having existing provincial debt assumed by Canada and treating new debt in connection with the proposed financial arrangements.

Other somewhat desultory efforts have been made from time to time to suggest possible approaches to the rationalization of the public debt structure in Canada, sometimes involving the participation of the Bank of Canada. The Bank has successfully resisted any provincial involvement for reasons of its close fiscal policy relationship with the Government of Canada.

Under present conditions there is no central control

over public debt operations in Canada except that of the provinces with their municipalities. Provinces and municipalities are thus free to operate in capital markets, domestic or foreign, regardless of the implications for either the Canadian economy or the balance of payments.

There has been very little real active interest on the part of either governments or the investment industry in formal controls. Politically, facing a very serious financial crisis, there seems little chance of any formal institutional approach to the problem in the manner made familiar by the work of the Australian Loan Council. Perhaps, however, the present disenchantment on the part of the investing public with fixed interest securities may encourage a re-assessment.

The situation is, of course, not completely without guidance as these comments might lead one to believe. Although no formal controls exist, there is in a practical sense an informal co-ordination that is exercised through the voluntary activities of investment dealers and officials of the various jurisdictions concerned. Very little goes on that is not soon common knowledge in informed quarters and as a result conflict between potential borrowers is usually straightened out before any harm is done. There is the fact also that some provinces and municipalities do confer informally with the Bank of

Canada and the Department of Finance of Canada directly or through their fiscal agents. This particularly applies in the case of U.S. loans and in 1960-61, the moral suasion on New York borrowing exerted by the Bank was very effective.

But this is all very loose and in the new climate of co-operative fiscal policy which is urged as a solution to the present problems it will hardly be adequate. If capital borrowings are going to be given the importance they deserve in the management of fiscal and economic policy, something more specific is likely to be required.

Past experience and present attitudes do not lead us to any great expectations of successful formal controls. Therefore, the idea of a voluntary capital issues committee has been suggested as one way of meeting the situation. Such a committee would logically be made up of representatives of the federal and provincial governments and the Bank of Canada. It is extremely unlikely that such a body could be given any executive authority but it could be a most effective agent in the exercise of the powers of moral suasion which the Bank of Canada now possessed to a limited extent.

A capital issues committee or some similar body has much to recommend it for it could provide a great deal more order in a market that could use the discipline.

But the concept has some aspects which would need careful examination and which would have to be weighed against the very evident advantages:

- (a) It would tend to reduce the discipline of the market by acting toward a levelling of borrowing costs unrelated to the normal credit standing of the borrower.
- (b) The desire to exercise an approved borrowing opportunity might encourage calls on the market regardless of the need for funds. This in turn could penalize borrowers whose need might be more genuine but who were further back in line. (The experience with provincial borrowing after Canada Pension funds became available may have significance in connection with the relationship of demand to availability.)
- (c) It could reduce the initiative and advantage of the competent borrower and increase the opportunities of those less well qualified.
- (d) Experience in Australia as we have previously noted would seem to indicate that political pressures would have to be contended with. Whether under a capital issues committee the federal government

would be able to divorce itself from provincial demands is a question that is difficult to answer.

Failing acceptance of even this limited approach to the control of capital borrowing, there is good reason to consider an extension of the present information network. While as noted, it works with reasonable efficiency at the present time, it is quite haphazard and can exercise no restraints except those that arise from the borrower having a better knowledge of the market and the activities of his competitors.

What could add a good deal to the system as it now operates would be the formalization of this information function. Perhaps the best agency to assume this responsibility would be the committee of finance ministers operating through the Federal-Provincial Continuing Committee on Fiscal and Economic Matters, the Bank of Canada or some future permanent secretariat. In such a case all participants would agree to provide information as to their capital requirements and their programmes. As well the demands of the private sector would have to be coordinated with those of the public. No sanctions could be used under such a system but the greater knowledge and understanding should lead to a better order and rationalization of the demands of Canadian borrowers on the capital markets. Taken in conjunction with a wider

acceptance on the part of governments of the requirements of fiscal and economic policies, it could be a contributing factor to a better financial order.

12. SUMMARY AND CONCLUSIONS

In the main body of the report we have examined in some detail the development of Canadian federalism and its adjustment to various influences, legal, social and economic. We have considered the nature, the effectiveness and the limitations of the pragmatic approaches to co-ordination which have assumed increasing importance in our more recent experience. We have placed particular emphasis on these influences in the basic area of our responsibility, fiscal and economic policies.

Our purpose has been to clarify the situation as it has evolved in response to changing pressures upon it and to try to suggest ways and means of adjusting our governmental relationships to the demands of a workable federal state in both political and economic terms.

This chapter is not a summary in the simple sense of the word. It is an attempt to synthesize the larger body of the main argument but in the process many of the essential elements are of necessity passed over. For this reason, if no other, reference to the summary and conclusions is no adequate substitute for a reading of the full report.

The Development of Canadian Federalism

Although the Canadian federation was first conceived as a strongly centralized one, events have made

many changes in concepts and attitude necessary over the years. There have been important movements in the locus of predominant power between the provincial and national governments and as the economy has grown and the problems have become more complex, it has become increasingly clear that rigidly established methods alone will not serve. Unless a pattern for adjustment is provided events, as we have seen, create their own. In that case the results will often not be what the best interests of the country require.

In a static society with a division of powers and responsibilities consistent with the established needs of the central and regional governments, there would be limited need for a system of intergovernmental relationships. But changing demands, along with the increasingly difficult problems of balance between public needs and government resources as the public sector grows, make the introduction of a structure of adjustment essential.

Nowhere is this need more evident than in matters of fiscal and economic policy. These influences extend through the whole fabric of public activity. They are not confined just to matters of stabilization and growth, for most government activities whether they be of direct fiscal and economic concern or not, have some influence upon the state of the country's economy.

So far in our history we have developed an extensive

and somewhat formless maze of relationships between governments to meet the needs of the co-ordination of their interests and responsibilities. In areas of particular programmes and issues there has been a good deal accomplished by this means. But in the broader areas of general principles and policies we have been less successful in translating objectives into appropriate political actions.

In their attempts to adapt the federal form to the parliamentary system, the Fathers of Confederation took some rather important liberties with the then existing federal concepts. In this they were strongly moved by the circumstances of the times and by the mistakes which they believed they detected in the United States. The controlling central powers of disallowance and reservation, the federal residual power and the then predominating federal taxing authority under the constitution illustrate the extent to which the founders were prepared to vary the federal form as developed in the United States experience in the interests of a viable nation.

Adaptation can be effected in a number of ways. Formal constitutional amendment, court decisions, administrative devices and informal practices all have their places. Constitutional amendment and court decisions are not our direct concern here although obviously they

cannot be ignored and we have emphasized the necessity of a firm legal base in any structure. We are concerned primarily with the problem of how, within the limits of our present system, it may be possible to develop methods and vehicles of liaison which will make the governing of Canada in the federal form a more effective operation. The interdependence of constitutional form and inter-governmental relationship is fundamental to our approach.

Historical Background

An understanding of the historical background is essential to any study of the problems of liaison between Canadian governments. While intense interest in the problems of the interplay of governmental interests is essentially a recent development, since earlier times there have been relationships of varying intensity. In many years it was more often than not a matter of provincial pressures for revision of the financial subsidies. Only since the 1920's has there been any noticeably conscious recognition of the close interests of the two levels of government, especially in the areas of our special concern.

There have been two principal influences on the growing emphasis on this relationship. The actual recognition of the inseparability of many of the interests in these broad fields of public policy dates from the

increasing role of government in economic affairs and the acceptance of Keynesian concepts, influenced by the pressures of the depression and the demands of wartime finance. While this approach was an element in the wartime tax agreements it received its clearest recognition in the reconstruction period, particularly through the proposals of Canada at the Reconstruction Conference of 1945-46. This Keynesian influence continued in varying degrees of intensity through the next decade of the tax rental agreements and the growth of conditional grants. It remained, but in a different form through the later years of our experience as changing influences have altered the focus of our public interests.

The second and later factor which has played an important part in the developing relationship in our times has been the increasing role of the provinces and their municipalities in the public sector. Consistently since the end of the second war and with growing momentum, the part played by regional governments has increased as the demands for public services have become more clearly associated with the responsibilities which are theirs under the British North America Act. In the war and immediate post-war years, the provincial powers were diluted by the general acceptance of federal initiative in areas of provincial authority, through joint programmes and the control of the tax system. But in more

recent years, starting perhaps from the peak of federal power about 1952, there has been growing evidence of a more independent provincial outlook, unevenly distributed and most clearly demonstrated by the Province of Quebec.

While the first Dominion-Provincial Conference was in 1906, that of 1935 was the first to deal with the problems of fiscal and economic co-ordination in terms which have pertinence to current interests. Other methods of dealing with these problems were proposed from time to time, but except in the area of special programmes, little was actually accomplished and over the years up until 1955 the vehicle of federal-provincial policy interest continued to be the plenary conferences, as in 1941, 1945-46, and 1950.

The concern lest the machinery of federal-provincial co-ordination should interfere with the proper parliamentary process has been of some influence in delaying formal intergovernmental development. But the principal factor in the slow growth of liaison methods in this period seems more likely to have been the predominant position of the Government of Canada through the later depression, the war years and the post-war reconstruction period. The relative inadequacy of the provincial governments in the same period also contributed. Politics, like nature, abhors a

vacuum and the inability or unwillingness of provincial governments to accept the responsibilities that society demanded left the federal government with opportunities throughout these periods which it was not reluctant to accept. At the same time the Government of Canada was abetted by circumstances, the depression, war, reconstruction, Korea and the continuing pre-occupation of most provinces with recouping their financial resources regardless of the form in which this was achieved.

Although there was some growth of intergovernmental communication as a result of the tax rental agreements, and the growth of government programmes after the war, the federal power continued to dominate the relationship. This domination continued until towards the end of the 1952 tax rental agreements in 1957. The specific turning point might have been the decision of Premier Duplessis in 1954 to impose a Quebec provincial personal income tax. But in reality this was only an outward manifestation of a situation that had been gradually building up as both political and economic circumstances of the federal-provincial relationship changed.

What was probably the most concrete step toward some greater systemization of intergovernmental relationships took place at the 1955-56 plenary conference with the creation of the preparatory committees of officials, which subsequently was established as the Federal-Provin-

cial Continuing Committee on Fiscal and Economic Matters. The creation and continued activity of this official committee has facilitated what developments there were in fiscal and economic liaison. While limited in authority, it nevertheless provided a bridge, if sometimes a shaky one, between the policies of the two levels of government. Developments were slow after the initial period of co-operative activity in 1955 and 1956 which lead to the important developments of the 1957 tax-sharing arrangements. There is little evidence of any great growth of interest in liaison in the broad fiscal and economic policy areas although there were some important advances in particular programmes. There were some substantial changes in the details of the financial relationship, but these seem to have been developed pretty much in the old form.

Recent Developments

It was the political upheaval in Quebec in 1960 and the subsequent changes in Ottawa in 1963, that as much as anything, led to the renewed interest in more structured intergovernmental relationships. Premier Lesage of Quebec pressed strongly, particularly after 1963, for greater liaison activity, and the federal-provincial conference of 1964 saw an important development with the creation of the Tax Structure Committee

as a joint ministerial group charged with investigating and analyzing many of the most important areas of federal-provincial fiscal and economic policy interests.

Since mid-1964 there has been great activity in fiscal and economic liaison, particularly through the work of the Federal-Provincial Continuing Committee on Fiscal and Economic Matters as the working arm of the Tax Structure Committee and through the Tax Structure Secretariat. This last, while supplied by Canada, for perhaps the first time directly involved the provinces in such activities through the utilization of personnel seconded from some provincial governments.

While the work of the Tax Structure Committee has not produced the positive results that many hoped it might, this perhaps only serves to emphasize the difficulties inherent in the search for acceptable solutions to basic fiscal and economic problems in a federal state. But as an example of what can be done under difficult circumstances it has been a valuable experiment, the lessons of which should not be discarded.

A further and more or less coincidental development in the same area of interest was the reinstatement of the meetings of the ministers of finance and provincial treasurers. This committee is of first importance in the scheme of things, for unless those ministers charged with the primary responsibility for total fiscal and

economic policy matters take the opportunity to examine their views through practical attempts at mutual understanding there seems little hope for success by more indirect channels.

At the Federal-Provincial Constitutional Conference in February 1968 it was agreed that a continuing intergovernmental study of the constitution and related matters should be undertaken. As this is written, the Officials' Committee of the Constitutional Conference has commenced its work in the broad areas of constitutional interest which it will be examining in the months ahead. Among these is that of the federal and provincial machinery of consultation. From these deliberations many new ideas and concepts of Canadian federation can develop both in the areas of formal change and in the processes of governmental practice. We hope this report may make some useful contribution to this work

Limitations and Conflicts

Changing conditions have out-dated the formal concept of federalism as one of a distinct separation of powers and responsibilities. It has been supplemented in fact, although not always in law, by processes which adapt the formal rules to the requirements of the times.

The liaison process is an involved one and there is no clear definition of its nature or its actions.

Essentially it involves the evolution of communication and consultation into co-operation. This last, in its part, must lead to the practical acknowledgement of joint interests and responsibilities. Intergovernmental relationships are not an end in themselves but merely a means to a number of ends. But if they are not adequately controlled there is danger of them existing for their own sakes rather than for what they may accomplish.

There are several requirements to be met if consultation is to become an effective part of the liaison process. If these are not fulfilled in large measure, the whole activity may become but a charade. If consultation is to be effective it must start with definable purposes so that each participant may know what is being sought. More conferences have foundered on this lack of understanding than on more complex and esoteric shoals.

The need to accept obligations as well as to seek advantages is also fundamental. Willingness to give up some freedom of action is an inevitable accompaniment of the co-operative process.

Procedural perhaps, but none the less of central concern, is the need to accept the frustrations and delays of negotiation as well as to devote often scarce resources to what may seem uncertain results.

Inequality of negotiating capacity has been an

important element in years past in the federal domination of these intergovernmental relationships. It remains an important distinction among the various participants, often unrelated to available financial resources.

In the whole area of liaison there are a number of important constraints upon the smooth and efficient operation of the process. Roughly these are of two kinds: there are those of a political nature and those which are essentially matters of administration. Under the first comes the question of political authority, that which is vested in the government itself; as well there is the question of the political power which is exercised by the party or the individual politician. In either of these a sacrifice is involved and it will not always be willingly accepted. Party and personal interests may both play a part in these influences but what may be a more important factor are the pressures of regional affiliations and involvements which can promote a distrust not only of the centre but of the other parts of the federation as well.

Limitations are not only imposed by the political side. Administratively there are vested interests on the part of officials as well as ministers which act to preserve or create divisions when co-operation is clearly required. It must be recognized, however, that such vested interests can become closely involved in the co-

operative process and can act to extend intergovernmental activities as well as retard them.

But the most important check of all may be neither political not administrative but procedural. The liaison process is essentially a committee operation. In the nature of the divided authority it is difficult for it to be anything else. Committees are useful devices for reaching a consensus. They are less successful in promoting executive action, especially in the broad areas of policy that we are concerned with. The dangers of compromise at the level of the lowest common factor are always present.

There are other limitations. The accepted unwillingness to attach executive authority to intergovernmental committees can result in serious delays through which agreed approaches to problems may become inappropriate. This is emphasized by the lack of co-ordination of the central and regional legislative processes. Where statutory authority is required, delays can become extensive and necessary action difficult if not impossible to achieve in a reasonable time.

The Fathers of Confederation tried to offset divisive influences of the federal form by giving strong overriding powers to the national government. But changing times and shifts in the locus of political power have reduced their practical importance.

When we add to these difficulties the practical problems of day-to-day operation under divided authority, it is not hard to understand the attitude of some who have regarded federalism as a form to be used only when no other options are open. Nowhere are the difficulties more clearly evident than in the developments of coherent fiscal and economic policies where the capacity to perform is not always consistent with the country's needs. A fundamental part of this question which consistently faces us is the need to adjust differences that so often exist between local demands and national requirements. This is not exclusive to federations but the political implications are more significant.

A basic problem we face is in the imbalance of powers and responsibilities made more compelling by the increasing total demands of government at all levels. Under the British North America Act, the powers were distributed in the interests of strong central government. But over time and particularly in the years with which we are concerned the balance has changed. While the predominant financial power through taxation has been largely in federal control, an increasingly larger part has come to be in the provincial and municipal areas, as their spending responsibilities have grown.

Even in a homogeneous country with reasonable levels of comparative wealth this would be the source

of differences. In any country where there are large variations, not only in wealth and income but in extent and form of economic needs, the problems are multiplied. In our case, while the prime fiscal and economic responsibility has generally been accepted as belonging to the Government of Canada, the conflicting demands, aims and capabilities of the different provinces, often difficult to define in terms of the total national interest, are a continuing source of political differences.

Central and regional policies will each be directed to the achievement of their most favourable economic ends. There is no guarantee that these ends will be the same. In fact a further complication may enter into the calculation in that economic policy objectives and political considerations may head us in different directions. Thus it is clearly to be seen that if any sort of harmony is to be attained, financial adjustment and compromise become central factors in the equation.

In this there are three principal components involved: the division of revenue powers, the assignment of expenditure responsibilities, and the transfer of resources between governments. No country has yet successfully answered the question of how the powers to collect revenue can be successfully correlated with the responsibilities for providing service. It is this situation that has made the development of both joint

programmes and fiscal equalization important elements in the programme of central adjustment of the Canadian federation.

But no matter how successful we may be in allocating revenues and responsibilities or in providing the fiscal adjustments that will help correct imbalances, we are not likely to achieve a situation where each can operate exclusively within its own assigned areas. The rigidities of a closed federal system are not consistent with the demands of the times and it is for this reason that methods of intergovernmental liaison on fiscal and economic matters becomes such a vital issue in a modern federal state.

Fiscal and Economic Policies

We have considered fiscal policy as being primarily concerned with the management of government revenue and expenditure, largely in the interests of stable economic growth. We have taken economic policy to have a broader significance which embraces many direct and indirect methods of influence largely in the interests of growth over the longer-term. In practical terms, fiscal policy has been accepted in most cases as a prime responsibility of the central government. Economic policy has been a concern to all jurisdiction, federal, provincial and municipal. While the general distinction has been made,

the terms as often used are not mutually exclusive, especially with respect to their ultimate effects.

Governments through most of our history have involved themselves in economic development in one form or another. Fiscal policy is of more recent origin and its active part really dates only back to the Keynesian era, particularly after World War II. While the Government of Canada in this period embraced the ideas of Keynes with enthusiasm, it did so in large part within the limits of its application to a unitary state without any great consideration for the complications of the federal form.

But while the attitude was understandable in the highly centralized operations of the 1940's, it is less supportable today in the light of the growing weight of provincial/municipal activity in the public sector. Our basic assumption is that the Government of Canada has and accepts the major responsibility for maintaining high levels of economic activity under a climate of stable prices and income growth. The question is what part the provinces and municipalities have played in this and what contributions can they make in the future?

The ability of the central government to operate in the field of fiscal policy is widely based. That of the provinces is more restricted, not only by reason of the powers available to them but in their ability to

control the effect of their actions to their own jurisdictions.

The issues to be faced are not easily defined for a number of influences are to be found which will often work in different directions. Often decisions to be taken will involve fundamental issues of a social, political, economic and even of a moral nature, and the alternative goals may be many, varied, and perhaps conflicting. Not only must we deal with the problem of divided influence as between the two levels of government but there is an additional and growing constraint which is imposed at all levels by the growing inflexibility as public demand takes an even greater share of the Gross National Product. This has serious implications for priority judgements as vested rights of established programmes and interest groups enter into the calculations.

Political factors also play a role. For until and unless the nature and aims of fiscal policy are more widely understood and appreciated by the public, the ability and willingness of governments to act in a positive and objective manner often is going to be seriously inhibited.

Technical questions provide their own problems for although substantial advances have been made economic forecasting still remains more an art than a science. Many important decisions rest on informed intuition with

serious lags between the recognition of the situation and the appropriate measures to deal with it.

But there would be little purpose in ignoring the use of fiscal policy because it is not all that we would wish it to be. Nor is it reasonable to neglect the difficulties which now stand in the way of its effective use and which are growing constantly more complex under the regime of divided authority which seems progressively more a factor with which governments must contend.

While the concepts of counter-cyclical policy have been widely recognized in Canada, the practical recognition has been largely at the federal level. Although federal policies have been on occasion hesitant and sometimes even misdirected, there has at least been an acceptance by most post-war federal finance ministers of the purpose of fiscal influence. It is not that provincial ministers and officials have been less capable of accepting new ideas, but rather that the feeling of a positive relationship, responsibility and capacity has apparently been more remote. Provinces have not, except in a few instances, acknowledged a place for themselves in fiscal activity and have limited their efforts largely to the financial demands of their growing expenditure programmes.

There are a number of reasons for this but an important influence has been related to the view that

provincial powers were not adjusted to such fiscal interventions and that there was thus no direct provincial responsibility. Since 1941 most major provincially controlled taxes have not been commonly accepted as adaptable to fiscal policy changes and, in any event, there are serious problems of leakage - of containing the effects of such policies within their own political areas. The absence of influence over monetary policy and the banking system has also contributed to the absence of active provincial involvement. All things considered it can hardly be considered surprising that neither interest nor capacity in fiscal policy has often been evident at the provincial level in the past.

Whether or not the provincial/municipal sector has acted perversely in relation to central fiscal policy has been a frequently debated question. Undoubtedly it did in the depression. But if we limit our consideration to the post-war period, there seems to be reasonable evidence to indicate that over that period its activities have been largely neutral. On some occasions actions may have been perverse, in others complementary, but in the great majority of cases fiscal effects seem to have been incidental to the prime expenditure demands.

In earlier years of the war and post-war period the influence of provinces and municipalities through their expenditures was not as vital. But increasingly

their expenditures have grown until they together now exceed those of the Government of Canada in total. Even though on the revenue side their influence has been limited, the expenditure side of fiscal policy gives them an important interest. And if the provinces utilize a greater share of the income tax in the future the importance of their involvement on some workable basis becomes increasingly evident. As we have emphasized, fiscal policy has tended to be regarded as more or less the exclusive presence of the national government. Inter-relationships have existed, of course, but they have not been well defined. It will not be enough to leave the entire responsibility on the federal government if it is left with a substantially reduced influence in the fiscally effective tax areas. Failing the development of some better alternatives than we now have, a weakening of effective federal control will leave us with nothing to put in its place.

There are a number of other factors which are important to the development of coherent fiscal policies. The effect of the rigidities of an extensive system of joint programme, the heavy and increasing interest of the provinces and municipalities in the capital markets, federal responsibilities for equalization and stabilization of provincial revenues, all these are factors in the federal-provincial fiscal equation.

On the other hand, in the field of economic policy the responsibility is more broadly shared. The methods directed at growth are often more directly in line with the powers available to all levels of government.

While the methods available are more adaptable to regional and local needs than are those of fiscal policy, there is in this fact a hazard which should not be disregarded. This lies in the increasing evidence of inter-provincial competition for industrial growth. While no doubt a great deal of this is valuable and justified, there is a growing measure of concern lest uneconomic measures should result in disorganized development contrary to the best interests of Canada's economic growth. The need for interprovincial co-ordination is clear. The need for federal leadership may be even more important.

Federal influence for economic growth can operate through a number of measures, tariffs and trade agreements, taxes, subsidies, employment and labour policies, capital investment and so on. Provinces and municipalities have a narrower scope but nevertheless their capacity for influence is substantial. There are the powers of special tax advantages, natural resource concessions, purchasing and contract preferences. Highway development, industrial promotions and special area development programmes also contribute. The main diffi-

culty in all these is that they may be used (and this can be true of federal activities) to support situations which not only are of questionable economic value in themselves but are not co-ordinated with any overall plan for economic development.

Regional growth is becoming an increasingly important element of concern but it seems unlikely that it will be achieved by unco-ordinated local effort. There are a number of signs of an increasing awareness of the need for a better balanced approach to economic growth and redevelopment, illustrated by the recently announced plans for a new federal department with this responsibility. Various federal-provincial schemes such as A.R.D.A., F.R.E.D., the Atlantic Development Fund, the Cape Breton experiment, all point ways in which change for the better can be effected. The Economic Council of Canada is showing active interest in a rational approach to the problem. Only through planned co-ordination of all agencies, federal, provincial and municipal are we likely to achieve any progress.

Structure and Activity

The conduct of government in a federation increasingly involves a varied flow of intergovernmental relationships. To meet this a complex structure has grown in size but not always in the form best adapted to its purposes.

The machinery of the liaison process in Canada is of wide variety running through formal ministerial institutions to the informal processes of daily administration. Reference to the inventory of some one hundred and seventy such units in the appendix gives a good idea of the developing situation.

For convenience we have applied Gallant's system of classification as used in his analysis, "The Machinery of Federal-Provincial Relations," published in Canadian Public Administration in December 1965. The various items of the machinery may be divided into five main heads:

- 1) Federal-provincial committees, often in the form of conferences, which meet both ministerially and officially to discuss matters of mutual interest. Some issues are of a broad policy nature, others tend to be more of a narrower programmatic interest. Such meetings take different forms and have different bases of existence but provide the more formal part of the structure of our intergovernmental relationships. They are generally convened and supported by the Government of Canada as the central figure.
- 2) Interprovincial committees, which are sometimes concerned with matters of purely regional concern nevertheless on many occasions cover subjects where a national interest involves the central government, even though technically only as an observer.
- 3) Advisory councils, which act in support of ministers, usually at the federal level and which in some cases are vehicles of federal-provincial consultation.
- 4) Quasi-independent associations which will generally be made up of ministers and/or officials as private members. They tend to act in support capacity in areas of special interests.

- 5) Other organizations such as regional committees and non-governmental organizations which have a preponderance of government members. The influence of the latter is often more incidental than direct.

Conferences and committees are not the only organized methods of intergovernmental exchange. There is a growing acceptance by federal departments of the usefulness of regional offices in maintaining effective administrative relationships with provincial authorities. As the extent of such regional authority is increased this approach will assume greater importance. On the provincial side, Alberta and Quebec maintain permanent offices in Ottawa, although the authority granted to them appears quite limited.

Formal processes attract the most attention but in practical terms the most effective results have often come from informal administrative contacts, those of daily business. The extent of this depends in good measure on the community of interest and the personal relationships which have become established over time.

Reference to the inventory suggests that our problem is less in quantity than in effective use. In it the various areas have been listed under appropriate divisions and subdivided by the specific interests involved. There are nine of these different areas and while all have at least some interest for us, that which is plainly of our main concern in a study of fiscal and economic liaison is

the first - "1. Central Government Activity."

We have divided this area into a number of parts each of some special significance to our interest.

A. General Government: - includes those bodies which are concerned with the development of broad public policies. Its most prestigious reflection is in the Federal-Provincial Plenary Conference whose interests clearly encompass the total field of intergovernmental policy. Under this heading we also include interprovincial conference of premiers whether on an interprovincial or a regional basis.

B. Financial and Economic Matters: - this is an area of intergovernmental interest which until recently has received inadequate attention at the ministerial level. While attempts had been made from time to time to develop some policy institutions here, only since 1964 with the successful formation of the Tax Structure Committee and the renewal of the finance ministers' meetings on a regular basis have there been any notable developments. The attempts to develop budgetary and fiscal co-ordination at these regular meetings of the finance ministers holds great hope for progress in this area.

The most effective agency has been the group of officials which was formed in 1956, the Federal-Provincial Continuing Committee on Fiscal and Economic Matters. This has been the working arm of both the Tax Structure Committee and the committee of the finance ministers.

C. Financial Institutions Regulation: - this is an extended area of intergovernmental interest covering a number of areas related to the control of financial and credit institutions. Substantial liaison has been carried on in certain aspects, as in life insurance, for a number of years. While its work is at a relatively embryonic stage, it has broken some new ground and holds promise for some interesting developments in areas of overlapping federal-provincial interests.

The other categories of activity cover a wide area of programme interests. Some are concerned with economic development, others have strong, if indirect, fiscal implications. The organizations vary with the fields but it is interesting to note the influence of technical interests in developing some effective process of co-ordination in several instances.

Assessment and Change

The assessment which forms an essential part of this study is in substantial part the product of a large number of interviews with ministers and officials throughout Canada. It cannot claim to represent official government opinion, federal or provincial, but we believe it does give a reasonable cross-section of the ideas of many people in positions of influence and authority.

Intergovernmental relationships have always been open to improvement in Canada but never more than in recent years as the problems of adjustment of interests have become more difficult. What we do find today is an increasing understanding of the fact that the form of the machinery itself is secondary to the acceptance of the obligations involved in reconciliations and adjustments. These problems of adjusting principles to practice are fundamental to achieving the kind of country we want, once we can agree what that is. While in some respects we have had to generalize from a fairly limited cross-section of opinion, we believe that the nature of the body of people from which our information was obtained gives a good deal of weight to the results.

Some general observations are worth noting before we examine details. First, the need for improved liaison is widely accepted; secondly, provincial people on the whole are less satisfied with liaison arrangements which exist than are the federal, probably because they have had a smaller part in the development of the system. Thirdly, technical or specialized areas are more amenable to harmonious co-ordination than policy areas - i.e. the particular is usually easier to resolve than the general; fourthly, personal understanding, ministerial and official, is an important element.

Opportunities for consultation are not lacking but

they do not always result in effective communication. Part of the problem is inherent in any political system where a contest for power between units of government often involving opposing political parties, is concerned. Differences may be eased, they are never likely to be completely eliminated.

Where there has been a long established relationship we generally find that workable arrangements for co-operation have been developed. It is in the newer areas of joint interest or where there have been changes in old policies that the important misunderstandings occur. Many of these relationships have been based on conditional grants and a good deal of concern was expressed as to the prospects for effective consultation if financial relationships were ended with the winding up of many federal shared-cost programmes.

The great problem we have to resolve is that of making the machinery of consultation capable of producing actual communication. There is a belief, particularly in provincial circles, that in all too many cases such communication is a facade and concerned mainly with problems where the issues have already been decided and which one side, usually the provincial, often has had little actual involvement. Admittedly there is a good deal of energy devoted to converting minor irritations at procedural shortcomings into such questions of principle, but the

facts support at least some of the provincial concern.

The fields where these complaints were most frequently heard were in new areas and those where important changes in policies were proposed. Industrial promotion and development, technical education and manpower training, and medicare are all cases in point. In established areas such as the national health grants and in welfare, complaints of this kind were much less frequent.

What must be recognized is that if consultation is to have results certain inhibitions both toward the sharing of responsibility and the acceptance of new ideas will have to be overcome. Unless governments are prepared to discuss their mutual problems and policies frankly and without undue concern for tactical advantage, the conclusions are not likely to be satisfactory. Admittedly the procedure will cause some difficulties, particularly where the exchange of information must precede Parliament or the legislatures being informed of proposals which may reflect public policies. However, the objection should not be too difficult to meet in practical terms, if the will is there.

We earlier classified the main areas of consultation and now propose to refer briefly to some of the characteristics and purposes of the different forms.

The central elements are, of course, the federal-

provincial conferences and committees. They assume a number of forms from the purely ministerial to the purely administrative. Each can serve its own purpose and it is idle to try to judge one as against the other in abstract terms. The federal-provincial relationship is a complex political-administrative structure in which the first ministers have the prime position but where many varied forms of relationships go to make up the effective operation.

Interprovincial, as distinct from federal-provincial conferences have not, at least so far, assumed great significance in Canadian affairs although they have had some influence in certain technical areas. In fact, at times it has become difficult to distinguish them from the broader form as the Government of Canada even though represented only as an observer or in an unofficial capacity has often assumed a position of some influence. While Quebec and to some extent Ontario seem disposed to favour an extension of the interprovincial relationship, there is a good deal of doubt in some provincial, as well as federal, circles as to the wisdom of this, insofar as broader fields of policy which touch on the national interest are concerned. The state of uncertainty that prevails with respect to interprovincial activity is exemplified by the fact that some regard it as a move to compensate for a lack of federal

leadership, others look upon it as a means of protecting provincial interests against federal domination while still others find it a device of influence properly applied only in matters of purely regional or local interest.

Advisory councils have been employed as an incidental means of co-ordinating governmental activities in several specialized areas. Where they include provincial officials acting in an advisory capacity to federal ministers as some do, they undoubtedly involve possible conflicts of interest which many participants seem able to resolve. Others find such resolution extremely impracticable and insupportable. Where there are non-government members there may be a serious restraint of free discussion and a restriction of the resolution of problems which are not fully compensated for by the value of outside and perhaps more objective advice. On the whole, while advisory councils may have considerable value in the development of policies within governments, especially where there is a strong professional interest, as a vehicle of intergovernmental co-operation, their use is of questionable wisdom.

Associations which are independent in form but actually are closely related to government interests have come to play some part in certain special areas where like interests among ministers or officials of

different jurisdictions are found. Perhaps the most highly developed manifestation of this approach is the Canadian Council of Resource Ministers. This body is concerned with the study of matters in the field of renewable natural resources. While it is a body complete with its own secretariat, it is ministerially representative of all eleven governments and is supported by their contributions. There seems to be some confusion as to the proper locus of responsibility for policy direction and as a result its ultimate place in the liaison scheme has not yet been clearly defined. While it does provide an interesting example of a different approach to intergovernmental liaison in a broad if somewhat technical area of interest, its wider application should not be hastily embarked upon.

Independent associations with a substantial membership of government officials from all levels have in the past had important influences on the improvement of intergovernmental communication. Probably the outstanding examples are the Canadian Education Association and the Institute of Public Administration of Canada. Their influence in this respect will likely be less important as more formal means of co-ordination are developed.

A great deal of effective consultation has been carried on through informal channels in the course of

daily business and through bilateral discussions. While these informal relationships probably form the real bulk of intergovernmental communications, they are usually administrative in nature and tend to be completely unstructured. While they cannot be considered as part of the formal machinery of intergovernmental relationship, their contribution to successful liaison has been considerable.

There remains ample opportunity for greater activity through such means of co-operation as the provision of special consultative services by federal departments and through the exchange of specialized staff. These approaches would appear to have the greatest interest for the smaller provinces.

Insofar as our particular interest in fiscal and economic matters is concerned, there are two particular liaison bodies which merit some special attention. By custom and the overriding influences of the financial factors, broad federal provincial policy matters have traditionally been the concern of the finance ministers and officials whether federal or provincial. A special interest is held here by the re-established committee of ministers of finance and provincial treasurers and the Federal-Provincial Continuing Committee on Fiscal and Economic Matters.

Many important aspects of fiscal and economic

liaison interest these two committees and their successful operation in close association is central to effective co-ordination. This interest must extend somewhat beyond purely fiscal and economic matters into programme areas in which important influences exist in a secondary aspect.

As the questions of intergovernmental liaison become more complex and concerned with fundamental public policies, there is an increasing evidence of greater attention to the need of improved communication and co-ordination. This will not only require the use of support groups at the official level but brings forward the question of the full-time secretariat to service the intergovernmental structure. The concept of such a body is not new but it is being pushed to the fore by some provinces encouraged and supported by events and the growing demands on the consultative process. These demands may be becoming too large and too complex for informal measures and the idea of a permanent group, however constituted, is favoured by some on the grounds of efficiency, continuity and objectivity. It is opposed by others on the grounds of unnecessary cost and a concern lest another body be established which is not responsible to the legislative branch. The status of such a group within the federal system and its ability to operate satisfactorily under the political pressures

of eleven different governments has been raised.

Ontario and Quebec on the whole appear to be more favourably inclined to a permanently established secretariat. Other provinces, while not necessarily opposed, have been less positive in their attitudes. In the end the decision seems to rest upon the question of whether it would be possible to operate a highly sophisticated intergovernmental organization in the informal manner of the past.

While not strictly a matter of intergovernmental relationships, there is a growing acknowledgement of the need for improvement in the internal organization of governments if the liaison process is to be successfully managed. Many informed people believe that quite a bit of our intergovernmental difficulties follow from the lack of adequate internal organization. Governments which cannot co-ordinate their own activities are not likely to be successful in co-ordinating them with those of others. Some governments, notably Quebec and Ontario, have taken steps to deal with this. Others, including the Government of Canada, appear to have plans in hand. Requirements will vary from government to government, but regardless of the method used, improved communication within government is a prerequisite to improved co-operation between them.

Public Finance Practices

While many of the problems of effective fiscal and economic liaison are matters of form and attitude, there are other more specific matters of what we might term practices or procedures which bear examination.

There are three main areas with which we are concerned:

- (a) accounting practices and public finance statistics.
- (b) budgetary practices.
- (c) capital market procedures.

Our concern is not with detailed technical improvements but with an overall view to see in what form and direction improvements in the sub-structure of information collection and procedural activity should be approached.

- (a) Accounting practices and public finance statistics:

Attitudes toward accounting are changing and expanding with great rapidity as we get further into the electronic era and capabilities increase. More and more is demanded of the process as it becomes an essential instrument of policy-making. There are some important barriers to progress, however. Problems of standard nomenclature and procedure must be solved if the co-ordination of approaches to fiscal and economic questions is to be successfully carried on. Accounting

is no longer merely a means of financial control. In its newer and more advanced concepts it must contribute to a wide range of uses and in this the demands made upon it become increasingly complex and sophisticated.

Similar problems are encountered in the field of public finance statistics. While much has been done to improve the situation in the past few years by the Dominion Bureau of Statistics, there remains a great deal more which must be accomplished if effective analysis for fiscal and economic purposes is to become more readily available. The demands for increased resources for this purpose at federal, provincial and municipal levels will be substantial.

(b) Budgetary practices:

The budget is the medium for the reflection of most government fiscal policies and many economic policies as well. In Canada, it has traditionally served primarily as an instrument of financial accountability. It is only in the last twenty years or so that its status as a fiscal and economic policy document has been generally accepted.

It is to be expected that provinces would have less concern for the budgets in this sense. In most cases they have considered them only as

a medium for the outline of the year's financial programme. Even with their increased role in the financial scheme of the Canadian federation, they have shown only limited interest in the budget as an instrument of fiscal policy.

This development of the budget in the modern federal state involves the acceptance by all jurisdictions concerned of the measure of their responsibility. It involves also procedural problems in the co-ordination of budgetary processes in the total and individual interests.

Budgetary procedures differ substantially between the federal and provincial governments and even to some extent between the provinces. It is not likely that such differences will ever be eliminated completely but it should be possible by co-operative methods to bridge some of the more inconvenient gaps. It will not be easy for the budget as well as being a fiscal instrument is an important political one and a number of influences will always come into play when we try to make it a vehicle of intergovernmental adjustment. Problems of secrecy are paramount and involve many of the traditional questions of both parliamentary rights and political advantage. Social and economic objectives will often differ and make recon-

ciliation between different governments difficult indeed. Even the procedural requirements of the timing of budget presentations will not be easily accomplished in the light of different legislative patterns.

Budgets are not quickly developed. The requirements for co-ordination will extend far back from the actual date of presentation and, as we have noted, will involve important questions of nomenclature and treatment. It is, in fact, likely that many important matters of intergovernmental adjustment will remain unresolved and we will be faced with problems of post-facto adjustment, which can be dealt with by special legislative action or through executive adjustment, where delay cannot be considered acceptable.

(c) Capital market procedures:

Reliance on monetary policy, the growing demands of provinces and municipalities and problems of foreign exchange have in recent years placed heavy emphasis on the rationalization of both domestic and U.S. capital markets for Canadian government securities.

Attempts to bring some sort of formal order into the activities of the various jurisdictions

have not been successful in the past. There are no doubt a number of reasons for this but the principal one would appear to be the unwillingness on the part of most provinces to accept any outside control over their borrowing activities. In fact, the federal government has not pressed the issue in recent years, nor has its fiscal arm the Bank of Canada, perhaps because the political implications are too clearly evident.

While no formal means have been developed informal efforts, particularly through a fairly closely-knit investment industry, have generally kept the situation with respect to market activities more or less in hand. Direct conflicts of timing among government borrowers on the market have been infrequent. There has been some voluntary co-operation between governments and in times of financial stress the moral suasion of the Bank of Canada and the Department of Finance of Canada has proved effective.

But these influences have been limited to timing and little, if any, progress has been made with respect to the control of the volume of public borrowing. Even in the limited area the voluntary system is unplanned and can be unre-

liable when most needed. Thus while there seems little prospect of formal acceptance of any controls of the amounts borrowed, along the lines of the Australian Loan Council, there is some weight of opinion, especially among the smaller borrowers who often feel handicapped in relation to the activities of the larger, in favour of some extension of control, at least with respect to timing. A capital issues committee has been suggested to regulate market activities of public borrowers on the basis of a "gentlemen's agreement". But even this does not receive any wide support. There is active opposition to the idea, especially in the investment industry, on the grounds that it would tend to weaken and perhaps destroy the discipline of the marketplace and perhaps bring political forces into play.

Failing any such voluntary approach, some of the benefits might be achieved through a more extensive information network. This could be operated by some central agency such as the Bank of Canada, the Federal Department of Finance, the Continuing Committee or some future inter-governmental secretariat. With a growing appreciation of the importance of fiscal and economic

policies at all levels of government, the wider availability of information could be a contributing factor to a better financial order.

Experience in Other Federations

Federalism in its various forms has been a widely used method of response to the desire for regional identity within a total national unity. Most federal states owe something to the experience of others before them. There are, however, many hazards in the process of adaptation, for the circumstances are often so basically different that superficial assumptions can often lead to unsupportable conclusions.

We have examined the liaison process in a number of other federations. Much can be learned in a general way from their experience but there are so many important differences in conditions and attitudes to be considered that we have found that direct comparisons have not often been particularly useful. Consideration of the facts led us to conclude that a detailed examination of the liaison arrangements in the United States, Australia and India would have the most value for our purpose. The full text of the report is included as an appendix.

The United States of America

While there are many obvious similarities in the problems with which the federations of the United States

and Canada have had to contend, there are two particular differences among the several which attract our attention. First, there is the greater number and the consequently reduced power of individual states. Second, there is in contrast to the situation in Quebec, no great cultural or ethnic concentration which has attached to it strong elements of political power. For a number of reasons the course of constitutional development in the United States has resulted in an originally decentralized form becoming effectively centralized in many important respects. In Canada, on the contrary, events have led us from a strongly centralized federation to one where the regional power has been increasingly emphasized in recent years.

While there is a long and effective history of administrative co-operation between the federal and state governments, there has been limited interest until quite recent times in any institutions of federal-state co-operation. For a number of years the main efforts were directed to inter-state adjustments. This interest was reflected institutionally in two organizations in particular, the Council of State Governments and the Governors' Conferences. The first was formed in the 1920's with the basic purpose of assisting in the improvement of state administration and in aiding the development of federal-state relationships. It is, however, purely

a state-related body without federal representation. Particularly through its permanent organization it has gradually grown in effectiveness and influence and has contributed in a number of areas to sectional and programmatic co-operation. It does not seem, however, to have had any noticeable impact on the development of the form or direction of American federalism.

The Governors' Conferences commenced in 1908. This is essentially a political body. Nor in this case is there evidence of any great influence on the broad direction of the development of the governmental form in the United States. It has served some useful purposes as a forum for the exchange of ideas and ambitions although the value of this over the long run could be over-emphasized.

We do not find in the United States anything that corresponds to the federal-provincial plenary conferences. Most federal-state relations, and they are common, tend to be programme related. The political aspects of liaison are more generally dealt with at the executive level without involving formal government processes of negotiation or within the federal structure through the Senate. In one area, however, there has been a substantial development beyond anything that we have done in Canada. The sub-committees of the House of Representatives and the Senate have provided an increasingly effec-

tive forum for the examination of federal-state problems. These congressional committees had a particular influence in the examination of the report of the President's Commission on Intergovernmental Relations which was published in 1955. This was the first comprehensive study of United States federalism and it made strong recommendations for the improvement of federal-state liaison machinery.

Perhaps the most concrete result of the report was in the creation in 1959 of the Advisory Commission on Intergovernmental Relations. While a legal creation of the United States Government and responsible to it, it is representative of a wide spectrum of American public life. Its main purpose is the examination and consideration of all matters related to the effective functioning of the federal form of government. Its influence has not been particularly great in a direct sense, but through the excellence of the research work of a limited professional staff and the support of some congressmen it is beginning to be a force. Indications are that its role will become more clearly defined and appreciated as its aims and accomplishments become better known to its political masters and the informed public.

The Commonwealth of Australia

One would expect to find a good deal of useful background in the Australian experience, for Canada and

Australia share many common characteristics of size and of political institutions. In that country, too, the fiscal problems of the federation have dominated political activity, although there has not been added to them the problems of cultural and linguistic diversity.

Over time the fiscal power in Australia has moved progressively toward the centre. This trend has been unmodified by any important social or cultural regionalism and there does not appear to have developed any strong consistent opposition to it although some state representatives have not always accepted a secondary role quietly.

The development of intergovernmental liaison has gone through several stages since the Commonwealth was formed in 1901. At first the main emphasis was on the continuation of inter-state co-operation that developed from the pre-union intercolonial conferences. But as the problems of central fiscal control assumed a more important part, the Commonwealth Government became an increasing force at the intergovernmental conferences. This influence has been reflected in a continuing growth of the central power.

Three particular institutions have played the major roles in these intergovernmental fiscal developments; the Conference of Commonwealth and State Ministers, the Australian Loan Council and the Commonwealth

Grants Commission.

The Conference of Commonwealth and State Ministers, or as it is known, the Premiers' Conference, has gradually developed into the central policy co-ordinating body in financial and economic areas. While it is a distinct organization from the Loan Council, it has membership and interests in common and now meets on the same occasions. There are a number of similarities between the Premiers' Conferences and our own federal-provincial meetings of first ministers. The general purposes are often similar. The Premiers' Conference while having a continuing existence with regular annual meetings, is informally organized and as in our own case, lacks the services of any permanent staff. These functions are performed by the Commonwealth Prime Minister's office.

Probably the most widely discussed intergovernmental institution in Australia is the Australian Loan Council. Three main problems exist with respect to public borrowing in a federation: first, there is that of determining the total amount of funds which can or should be borrowed; second, there is the problem of deciding how such funds would be distributed among the various units; and third, there is the question of what purposes should have priority.

The decision to control future borrowings was part

of the decision to centralize the public debt in Australia. This was first accomplished by a voluntary arrangement among the treasurers of the various governments, but in 1927 it was formalized under increasing market pressures by the Financial Agreements Act of 1927. The Loan Council has two essential functions:

- (i) to determine the amount to be borrowed,
- (ii) to apportion that amount between the various governments.

While the Commonwealth Government is in a minority position on the Council, it does have a predominant position. In the first place, as it has two votes and a casting vote, it can control with the support of only two of the states. It has usually had much the greatest technical knowledge and has in its support the influence of the central bank and thus is in a position to set the extent of public borrowing. The matter of distribution of funds raised is more complex for it must be based on unanimous agreement. If this cannot be obtained, the Commonwealth is entitled to one-fifth of total borrowings (defence borrowings are not part of the Council's concern) while each state has that proportion of the total that its net loan expenditures bore to those of all the states in the last five years.

This distribution formula is rigid and some consider it to be unrealistic and even uneconomic and wasteful. It has never been applied but seems to serve a

useful purpose as a back-stop in case of irreconcilable disagreement. The life of the Loan Council has not always been an harmonious one but the fact of effective federal control and the willingness and ability of the Commonwealth Government to supplement available market moneys from its own tax resources has done much to promote a continuing existence and to confirm the Commonwealth's control. It has nevertheless some solid accomplishments to its credit. It has made available to the states funds which would not likely have otherwise been available at acceptable interest rates. It has exercised some measure of restraint on the growth of public expenditure through its control of total available funds. It has not succeeded, however, except under emergency conditions, in exercising any effective control over the determination of priorities and to some extent through removing some of the discipline of the market may have contributed to the misallocation of scarce resources.

In an attempt to deal with the ever-present problem of financial disparities, the Government of the Commonwealth formed the Commonwealth Grants Commission in 1933. Many of the problems of regional inequality had long been intense and failing remedial measures seemed destined to increase. In Australia the idea of regional (state) equalization has received longer and more wide-

spread acceptance than in either Canada or the U.S.A. As a result, Australia has pioneered the development of institutional methods and techniques to deal with this problem. There is in fact an extensive history of financial adjustment between the centre and the states dating back to the original constitution. The disorder of the situation and the continuing and political pressures became serious and the Commonwealth Grants Commission was unilaterally established by the Commonwealth Government to meet the situation.

It should be clearly understood that the Commission is not a supra-legislative body. Its findings are recommendations only and must be implemented by central government action. However, it has developed high professional standards and has been completely free of political influence or bias.

The Commission works on two basic concepts:

- (i) that each state should be able to perform public functions at acceptable standards;
- (ii) that a state should be prepared to exert reasonable fiscal efforts on its own part.

Decisions of the Commission are based on extensive analysis under pre-determined rules and attempt to relate the needs of the poorer or claimant states to standards in the wealthier states. On paper the attempts to do so are impressive, but in actual fact its part in the financial scheme of things has become increasingly less

important as the number of claimant states has been reduced to one (Tasmania) and as tax reimbursement grants have become converted into financial transfers with a strong political base rather than derivation payments.

Numerous suggestions have been advanced for an extension of the Commission's responsibilities but it is questionable how effective these could be under the political pressures that arise. If a larger and more penetrating role is to be assumed, numerous changes in technique and a greater attention to the development of basic federal concepts are usually considered to be essential.

India

Aside from the fact that India also operates as a federal state under the parliamentary system in a large country, there is little that would lead us to expect any useful application of Indian experience to the Canadian situation. However, there have been some interesting experiments in institutions and methods of fiscal and economic co-ordination which we examined and taken in context and not too literally they may have value for us. Perhaps the lesson is that the more complex institutions of intergovernmental relations work more readily in countries where strong central authority is accepted.

As might be expected in an underdeveloped country, there has been a strong trend toward central domination,

based to a considerable extent on the predominating influence of the Congress Party, both nationally and locally. Economic planning, with noticeable socialistic implications has been an important element in the efforts to improve the economic lot of a people who, in our terms, are lamentably poor.

All these problems, combined with serious regional disparities, have called for ingenious approaches to the co-ordination of national and regional interests. India has tackled the problem both institutionally through the development of formal vehicles of co-operation and pragmatically through the political process. It is in the formal institutions that our interest lies.

There are four main institutions with which we are concerned: the Finance Commission, the Planning Commission, the National Development Council, and the Zonal Councils. All these have similar purposes of economic and fiscal adjustment but they differ substantially in their form and the method of operation.

The Finance Commission is the principal institution of fiscal adjustment. It was provided for in the constitution and was presumably intended to be the instrument for correcting state disparities. While it remains as an important influence, its position has been somewhat weakened by political forces by its rivalry with the Planning Commission and by its own structural defects.

Under the constitution the Finance Commission is established every five years. It is a non-continuing body appointed by the central government and disbands on each occasion after making its report. It is non-political with five members of wide and pertinent experience in the matters that must come before it. These include such important questions as the distribution of taxes between the centre and the states, the principles governing grant-in-aid to the states and any other matters which are related to the financial needs of the states as compared to those of the federation. While strictly speaking its powers cover both sides of the accounts, it has limited its efforts to dealing with the problem only through the revenue side. But in developing its solutions it has acted through a wide and often difficult spectrum including such matters as budgetary needs, tax efforts, economy of expenditure, standards of social services, special obligations and national influences. Its ambitions have sometimes run ahead of its technical resources and capacities.

Its purpose is to determine the financial needs of each state in the areas of normal expenditure needs. It has not been successful in attempts to deal with the special influences of the economic development plans which are the preserve of the Planning Commission. In this it is handicapped to a serious extent by the avail-

ability of working data. It is further constrained by its own non-continuous nature and by the lack of any effective technical staff of its own. As a result, the whole approach tends to become somewhat fragmentary and while the various commissions have followed a reasonably consistent path, they have lacked basic ground rules and a philosophy of equalization which was so typical of the Australian approach. While the various Finance Commissions so far have had trouble reconciling their role with that of the politically powerful Planning Commission, the work that has been done has helped in an important way to develop increased harmony and reason in a very tangled field of union-state relations.

Planning had a good deal of interest to the Government of India even before independence. In these circumstances we may wonder why no provision was made in the constitution for the planning function. The reason may be in a desire for flexibility and direct political responsibility which would have been more difficult to achieve under constitutional rigidities. The need was recognized very soon after the constitution was ratified. The Planning Commission was established by cabinet resolution of the central government with broad terms of reference. It was charged with the development of an inventory of resources, human as well as capital and material. It was required to formulate a plan for their

most effective use and to develop priorities and stages of development. It was responsible for indicating factors which were working against economic growth. It was required to develop means for implementation of its plans and to appraise the success of their execution, and to carry out such ancillary responsibilities as were appropriate to its functions.

The organization of the Planning Commission was vague. Neither its size nor the qualification of its members was specified. It was from the first a political body with the Prime Minister as chairman. One of its problems from the beginning was the lack of a clear distinction in its duties and those of the cabinet itself. This very early led to the resignation of a minister of finance.

Over time there have been some changes in the form of the Planning Commission. At last report it was made up of fourteen members, seven of whom were ministers with one, the Prime Minister, acting as chairman. Seven were full-time non-political members. One, as deputy chairman, was responsible for the Commission administration.

Unlike the Finance Commission, it is a continuing body with a well developed internal organization. It operates in six divisions, each in charge of a full-time member: natural resources, agriculture and co-operation;

industrial and minerals; social services, education, health and scientific research; transport, communications and administration; social welfare, labour and employment; and international trade. Thus, while it has broad responsibilities in important areas of intergovernmental interests, it does not in many respects meet the test of an intergovernmental liaison organization. Its work vitally affects the states in many areas of their prime interests but essentially it is a direct reflection of central government authority. This relationship has caused difficulties not only with the Finance Commission but with state governments as well. In an underdeveloped country such a situation may be acceptable, even necessary. It is highly questionable if it could be effectively applied under more sophisticated circumstances.

The predominating central influence in the Planning Commission made some modifying influences inevitable. To meet this need, in 1952 the joint union-state National Development Council was formed. It consists of the chief ministers of the States, the Prime Minister, members of the Planning Commission and the central cabinet. The objects, of course, are those of stable economic growth through consideration of important social and economic questions and the making of recommendations for the achievements of the objectives of the national plan.

On paper the National Development Council should

be the prime force in the economic development in the federation. It has not filled this responsibility and has too often been diverted by political considerations. Like so many organizations without closely defined responsibilities, it has tended to lose itself in generalities. If the Council is to become the effective force it should as state influence increases with the reduction in the broad controlling authority of the Congress Party, it must develop more distinct functional responsibilities and provide a working body to undertake them for it. There seems good reason to think that if it had the internal resources of the Planning Commission it would be in a much better position to meet the demands for what might reasonably be expected from it.

India is overwhelmed in many respects by its regional problems, religious, linguistic, economic. The constitution recognized the need for some method of adjustment through the provision of inter-state councils but these have not been widely used, perhaps because of the very intensities of the differences involved, perhaps because the Zonal Councils made them superfluous. But as a result of a growing appreciation of the regional needs a state re-organization commission appointed by the Government of India recommended the creation of regional bodies. Five Zonal Councils were

formed representative of states with some community of economic and cultural interests.

The Zonal Councils are essentially inter-state committees but there is federal representation by a Union minister to give the necessary cohesion to a body of politically appointed state representatives. The main purpose is to provide inter-state co-operation especially in fields of economic and social policy and to provide a forum for the settlement of inter-state disputes. So far it has been too loose an organization to have had important influence but in principle at least the Zonal Councils should provide a path for the adjustment of many difficult regional problems which the states should be able to settle between themselves. There is good reason to hope for some extension of this process.

It should be clear that the Indian experience does not offer any packaged deal for smooth federal-provincial relations in a developed country. What has been done has not always worked but at least an attempt has been made under difficult conditions to meet the essential problems in a manner appropriate to the prevailing political circumstances.

In the field of co-operative fiscal and economic institutions the new federations of Africa and Asia have leaned heavily on the Australian and the Indian institutional models. Under new and unsettled conditions and

in the face of almost insurmountable problems, the reliance on formal institutions can be understood. These countries seem to have had a greater faith in the value of the independent expert than have federations of greater economic and political sophistication.

CONCLUSIONS

It would be a fundamental error to assume that intergovernmental liaison consists merely of a mechanical structure of linked functional organizations. Liaison is an organic process of extreme complexity, nowhere more difficult to synthesize than in the fiscal and economic areas where policy issues tend to predominate.

Too often in our study we have been unable to escape the feeling that many difficulties are related to a lack of understanding on the part of those responsible of what the purposes of governments are. Too often there is an absorption in the process at the expense of the objective. Conflicts of aims and ambitions, of method and approach are inherent in the federal idea. Our purpose cannot be to eliminate them but rather to see how they can be best channelled in a manner most conserving of resources and best adjusted to the ultimate end of the public good. In all this, the units of government in the federation must decide whether they are partners or rivals. Too often has political rivalry obscured

administrative partnership.

Many attitudes toward intergovernmental co-operation, particularly in areas where basic interests are involved, are coloured and distorted by preconceptions and ideological beliefs. Perhaps even ideological beliefs may be adjusted so that many conflicts will be regarded as wasteful and unnecessary. But in the federal climate it is unlikely, perhaps even undesirable, that these forces will even entirely disappear. The pressures of demand in the public sector will always provide fuel for the fires of disagreement - that is the path of progress. What we must do through the liaison process is to provide the means of adjustment so that the forces of differing interests may be used as far as possible in a complementary rather than in a conflicting way. We can usefully recall here what John Dafoe once said in the context of commonwealth relations for it applies with even greater force to our own concern:

"if our interests differ to a point beyond the possibility of statemen co-operating with one another, the Empire is bound to blow up anyway no matter what the machinery is."

What then is our purpose here? It is certainly not to devise a new society or write a new constitution. Our task is a much more limited one. Essentially it is to try to provide, within the framework of our present system of government, the methods and the institutions

which can contribute to more effective and harmonious intergovernmental relationships in matters of fiscal and economic policy. In this we will never succeed completely but it is possible we may weight the odds more heavily in favour of a stronger Canadian federation.

In the past, specific solutions applied to particular problems have more often than not been our most successful approach. It may be that in this lies the most practicable answers to many of the questions that face us. But practical as the approach is, it will not be enough. Fundamental principles must be resolved before we can hope to enjoy a larger success.

One basic condition must be accepted if federalism is to succeed. The concept of inter-dependence must take precedence over that of independence. The economic and political realities of today have forced upon us the necessity of a pragmatic and flexible approach as opposed to distinct and dogmatic answers to our problems.

In several other federations as well as our own, we have found little evidence of permanent success in dividing the powers and the responsibilities of government, central and regional, into isolated compartments. The inter-dependence of much that governments in a federation do must be recognized. The old idea of fiscal responsibility, that he who spends the revenue should

raise it, desirable as it may be as moral philosophy, no longer can have a major place in our practical applications. As a result of the logical process of placing the major instruments of fiscal and economic policy in central hands, regional governments became dependent upon the central government for an important part of their financial resources, some much more than others. But increasingly in recent years the central government has become more dependent upon regional governments in many areas of influence which have important national effects. The situation of mutual dependence has seen some ingenious methods of adjustment, formal and informal. Some have met with considerable success, particularly where the objectives have been clearly defined. In the larger areas of policy co-ordination the results have been less striking.

It is not our intention to leave the impression that we believe that each level of government no longer has a life of its own. Clearly there are many important areas where a decisive definition of powers and responsibilities is an essential element of harmonious federation. The larger these areas are the better for all concerned providing they are properly defined. Liaison processes, as we have continually emphasized, are not an end in themselves. Their purpose is to make available acceptable solutions where these are not obtainable by more established means.

In our examination of the methods used to reconcile opposing forces within various federations, it has become only too clear that the success of any system depends upon the successful adjustment within a political framework. No matter how elaborate or how ingenious a system of liaison is, in the final analysis it is subordinate to the political process. Some other federations have attempted to overcome these difficulties by inventive and imaginative methods and institutions, but in many respects they have had little more success than we in Canada, who have been nervously hesitant lest we tread upon the toes of established legislative prerogatives.

But the fact that there are vital political forces to contend with does not excuse us from providing the structure of co-ordination. While it may bend to the pressures of political interests, if properly designed and reasonably accepted it can make possible the moderation of disruptive forces and help us to work toward the reconciliation of our differences.

What the machinery of liaison can do is to provide the means for reaching agreement on facts and on the assessment of situations in which governments are mutually concerned. It can provide a channel of communication so that differing points of view may be better understood and appreciated. It cannot provide for joint

decision-making nor is it desirable that it should. In multiple responsibility there is danger not just that the best policy may succumb to compromise, but that no policy at all may result. It is to the end of co-operation through effective communication and understanding, not to the creation of any new centre for decision-making, that our proposals for an integrated system of intergovernmental liaison in fiscal and economic matters are addressed.

13. PROPOSALS

The institutions and methods of co-operation in a federal system are heavily dependent on the federation's constitutional form and particularly on the division of powers and responsibilities. With a concentration of authority in the hands of the central government there would be little need for any elaborate machinery of intergovernmental relations. On the other hand, if extensive decentralization were to be accepted, the provinces would have limited incentive for liaison with the centre, although the federal government would have a very real need of provincial co-operation if it were to fulfil any national purpose. Special status of one form or another would bring with it other problems which need not concern us here.

While flexible enough to meet the requirements of most situations, our approach to the problems of liaison in fiscal and economic matters is based on what seems to us to be a realistic acceptance of the facts as they are and as they must be if we are to preserve the Canadian nation in recognizable form. This form, we believe, is that of a strong central government working in tandem with strong regional governments in the growing place of the public sector in today's society.

The Co-ordination of Policy

In our examination of these federal-provincial fiscal and economic relations we have attempted to understand why the deficiencies in the most important areas of mutual interest have occurred. We believe that the answer lies to an important extent in the difficulty of adjusting changing pragmatic interests often highly political in nature with the basic responsibilities of the constitution, sometimes not too clearly defined and understood.

In our liaison proposals we attempt to meet this within the present governmental structure but the limits are clear. We must acknowledge that the success of the approach depends to a great extent upon the willingness of the partners to accept the obligations as well as the advantages of such operations.

Under existing conditions the fiscal and economic content of the federal-provincial relationship must remain of predominant interest. Obviously the highest level of policy responsibility must be involved in matters which so vitally affect all governments as well as the state of the total economy. The plenary federal-provincial conference has been used for this purpose and will continue to have a primary role. But we should consider how its part can be re-designed so that it can operate to better effect and to this end another institu-

tion enters into our basic proposals. This is the committee of Ministers of Finance and Provincial Treasurers. While distinct in operation and membership the fields of responsibility of these two groups are complementary and both are fundamental to the development of an effective system of intergovernmental relationships.

A. The Federal-Provincial Conference of Prime Ministers and Premiers

While in theory at least a meeting of first ministers, the plenary conference has become a general gathering increasingly cumbersome in size. This had been dictated in large measure by its concern with a number of detailed objectives which have required a widely representative group of ministers and advisers from the various governments. It is likely that over two hundred ministers and officials were present at the last plenary conference.

A conference of this size, regardless of the fact that there are few active participants, is not a good medium for free discussion of basic issues. Further, its size raises important questions of the ability to maintain the confidential nature of the proceedings where this is desirable. We found a strong body of opinion in favour of smaller confidential meetings, especially where negotiations are involved.

But we should not reject the advantages of public

education and interest that go with access to such discussions. There is growing acceptance of the idea of open meetings following the success of the Confederation of Tomorrow Conference in Toronto in November 1967 and the Constitutional Conference in Ottawa in February 1968. The answer may lie in separating the work of the plenary conference into two parts, one concerned with matters of high policy determination often involving negotiations of a political nature, the other taken up with a more general coverage of matters of principle and opinion.

1. The Committee of First Ministers

We propose that a top-level policy meeting, formally constituted, should be held at least annually consisting of the federal prime minister and the prime ministers and premiers of the ten provinces. The objective would be to examine in confidence the whole range of matters of current mutual interest in principle, with regard to their effect rather than to the detail of their operation, with a view of determining what joint objectives might be sought and what means might be employed in seeking them. This group would not concern itself with detailed programme development but with the direction and course of government and the delineation and reconciliation of objectives. A major concern would undoubtedly be the determination of the general nature of

priorities within and between governments and in relation to the state of the economy and in this the close relationship with the finance ministers could be of great importance.

As the first ministers would be dealing with matters of high principle rather than of detailed substance, limited support at the meetings of advisers, ministerial and official, would be both desirable and practicable. We emphasize the value of direct and private personal exchanges in such situations and these are not usually convenient in crowds. In many respects this committee could follow the general pattern of the present Provincial Premiers' Conference, with emphasis on vital matters of mutual interest. The nearest parallel in other federations would be the Premiers' Conference in Australia.

2. The Federal-Provincial Conference

The first ministers will undoubtedly decide that certain matters require the wider consideration which can best be provided by a plenary conference of the kind to which we have become accustomed. In fact while the first ministers might be able to deal with a number of issues, part of their concern would be with the question of just what matters should be referred to the plenary sessions and what to functional groups. For example,

questions of principle in matters of wide interest and concern such as the federal-provincial fiscal arrangements or the constitutional questions that currently concern us could be of the kind for plenary treatment.

We do suggest, however, that every effort should be made to limit the agenda of these conferences. In the past where a broad and varied agenda has been put forward, the demands of time have meant that inadequate attention was paid to the important parts of it in many cases. The use of functional sub-conferences has much to commend it and we will deal with this further. An agenda concentrated on matters of broad impact is the only one that should concern a plenary conference. If there are many topics demanding attention, better results would come from several meetings with only those directly concerned present on each occasion.

If the plenary conferences concern themselves with matters of broad principle and opinion and leave detailed negotiations for more confidential surroundings, the advantages of public access to such conferences should be recognized. While there is certainly not enough evidence in the response to the two open meetings held so far to indicate a sustained public interest over time, the advantages of public involvement in fundamental matters of national importance warrant further experience with direct access. There may be an addi-

tional bonus in that given such a forum, participants may feel less impelled to provide the public through the press with their own views for political purposes regardless of the effect such statements may have on the course of the discussions. We repeat, however, that we do not believe public meetings are the appropriate media for specific and detailed negotiations between interested parties. The reasons are much too obvious to require re-statement here.

B. The Committee of Ministers of Finance and Provincial Treasurers

In the organization of most Canadian governments, federal and provincial, the departments of finance or the provincial treasuries have certain broadly based responsibilities which place them apart from other ministries. This is particularly so with respect to our interest in fiscal and economic matters and it is for this reason and in this context that we preserve a special place for the finance ministers' committee. This committee should operate primarily as a staff arm of the conference of first ministers and the plenary conference even though it would also have certain functional responsibilities. Its basic purpose would be to advise on the harmonization of fiscal and economic policies and to deal with those matters which the first ministers referred to it for action or advice. This committee would be concerned

particularly with such matters as fiscal and monetary problems, the projection over the longer term of government revenues and expenditures, the development of long-term budgeting for both capital and current expenditure, technical methods for the control of expenditure and the more effective collection of public revenue, public borrowing, harmonization of budgetary accounting and financial statistics practices and all matters related to the fiscal and economic problems of governments.

We fully appreciate that in some cases other departments of government will be intimately concerned in these processes. We see no reason why their ministers should not continue to participate in the proceedings when it is appropriate that they should do so.

This committee would be called upon to assume most of the responsibilities which have been carried out by the Tax Structure Committee and the existing finance ministers' committee in the immediate past.

C. Functional Committees

An examination of the existing structure suggests that a good deal more consistency could be introduced into federal-provincial functional relationships. What we have, in many cases, seems to have developed from responses to individual situations rather than from any organized attempt to deal with functional areas of related interest.

In most areas of the public sector there are interests of sufficiently widespread importance to warrant representation from both levels of government. We found, in the course of our study, a substantial body of opinion in favour of this mutual involvement even where the strict constitutional position did not seem to require it. There was a point of view that favoured a wide federal participation as providing a cohesive force which operated to the advantage of all. Experience in other federations would seem to lend support to the approach.

We propose, therefore, that there be established in support of the Federal-Provincial Conference, a series of functional standing committees of ministers, representing the Government of Canada and all ten provincial governments. Such committees would be created to deal with matters in broadly defined functional areas and while they would generally follow the accepted division of ministerial responsibilities, they would not necessarily have to conform to them. Such functional areas could include: agriculture and rural development; labour, manpower and training; health; welfare; national resources; and we suggest, even education, which might include the manpower and training function. Ministerial committees in some of these areas already exist. Clearly the membership of such functional committees would have to be fluid with the appropriate special sub-committees on particular topics, but continuity could be maintained

through a permanent representative from each member government, through its secretariat, and perhaps by a standing chairman.

In certain cases interprovincial gatherings would also be required where matters of purely regional interest were involved. Such groups could meet independently of the functional committees but there would often be advantages of continuity and economy in meetings held prior to or subsequent to the related federal-provincial gatherings.

D. Support Groups (Officials)

An examination of the inventory in the appendix indicates that ministerial meetings have been strongly supported in some cases by committees of officials, sometimes on a continuing, sometimes on an 'ad hoc' basis. This is as it should be for in many instances the matters dealt with are of a detailed and technical nature. There has often been, however, a lack of form and structure with the result that it has been frequently difficult to relate the growth of these various bodies to any consistent programme of federal-provincial co-operation.

But as the problems of our intergovernmental relations become more complex and the solutions more sophisticated, the old methods will not always serve. In recognition of the broad increased responsibilities that will fall on ministerial bodies, we offer the following

support organizations, emphasizing the need for a close and continuing relationship between policy and administrative groups:

- 1) A continuing committee of senior officials in support of the Federal-Provincial Conference of Prime Ministers and Premiers and the Federal-Provincial Conference.

Under the present system the main continuing official-level support for the Federal-Provincial plenary conferences has come from the Federal-Provincial Continuing Committee on Fiscal and Economic Matters. If we examine the history of this relationship we find that it stemmed from the pre-occupation of the plenary conference with fiscal and economic matters, particularly those connected with the financial agreements.

With a strong and continuing central role for the conference of first ministers and the Federal-Provincial Conference, a new official support group should be established. Such a group would be made up of the most senior policy advisers. Who these would be would, of course, vary as between governments, but in each case there would

have to be a close and continuing relationship of the individual members with their first ministers. To an important extent there should be a common element of membership between this support committee and the existing Federal-Provincial Continuing Committee on Fiscal and Economic Matters. The use of alternate or associate delegates on these two committees would likely be essential in achieving effective co-ordination between their activities.

Before proposing the formation of the new group we gave careful attention to the role of the Federal-Provincial Continuing Committee on Fiscal and Economic Matters as it has developed since 1956. We wished to determine whether or not it might fulfill the support functions in relation to the Committee of First Ministers that it has for the Plenary Conference in the past. We have come to the conclusion that with the increased complexity of the demands on the liaison structure and the growing tendency to centre federal-provincial activities around the head of government in most cases, the Continuing Committee

would have to assume a dual personality in its relationships with the first ministers and the finance ministers. In fact, it has already had to do this, on occasion. Under the circumstances and taking into account the increased responsibilities of the Continuing Committee if the Tax Structure Committee is dissolved as we propose, it seemed only sensible to accept the situation as it would almost certainly exist in practice and to provide for the new senior officials' committee, always recognizing its very close community of interest and responsibility with the Continuing Committee.

We put a good deal of emphasis on the need for such a senior officials' committee to be formalized and of a continuing nature meeting regularly and as circumstances require. Like all federal-provincial committees it could not take decisions itself nor could it assume a policy role, but it would not serve its proper purpose if it were merely ancillary to the ministers' : served and was without identity and purpose of its own.

- 2) The Federal-Provincial Continuing Committee on Fiscal and Economic Matters.

While composed for the most part of finance deputies, since its inception in 1956 and increasingly over the years a number of other government officials have been associated with it in areas of their special interests when circumstances made this advisable.

As we have already noted, the Continuing Committee would lose some of its present authority as the senior officials' committee with the formation of the proposed group. But its duties as the working arm of the finance ministers' committee would involve important alternative responsibilities, particularly as they develop under the proposed re-organization. This would apply particularly with respect to the work of the kind undertaken by the Tax Structure Committee which we have proposed the finance ministers should undertake. It was as the operational group for that organization that the Continuing Committee had its most sustained period of activity since the early years of its existence.

This Committee would become the clearing-house for all technical matters which were of fiscal and economic content and in this responsibility it would have to act as the co-ordinator in the application of many policies in functional areas of government where there were fiscal and economic interests. Its relationships with the senior officers' committee in the co-ordination of fiscal and economic matters within total intergovernmental relationships would be of vital importance.

3) Committees of Officials Subordinate to the Functional Committees.

The series of functional committees of ministers with its appropriate structure of sub-committees, has an important place in the proposed liaison structure. In order that they may perform to the best advantage in the various areas of interest, they should be supported by the necessary subordinate committees of officials as the particular matter under consideration requires. Logically the subordinate group should function in preparation for the ministerial meetings and in harmony with them. To the extent necessary, each such subordinate

group should be capable of further division where the participation of technically qualified officers could be available. As an example of what we mean, the Federal-Provincial Continuing Committee on Fiscal and Economic Matters has on occasion found itself dealing with questions of high technical content. In the past it has not always developed the necessary detailed approach. We understand that this has now been recognized and that special sub-committees are being formed to deal with special problems such as that of the integration of activities related to programme budgeting and its procedures.

We are of the opinion that the system of committee relationships which we have outlined would make superfluous in the intergovernmental context those advisory groups and quasi-independent organizations which have come into being over the years. The purpose of an intergovernmental organization is to reconcile the policies and activities of the different governments. This is a proper responsibility for ministers and officials. What assistance from the outside governments may use in developing policies is something else again. We are not in any way suggesting that independent advice should not be sought

where it could be helpful in advancing the public interest.

E. The Secretariat

The intergovernmental structure we have outlined, if complex, is still more logical and a good deal tidier than that which is now employed. If it is to work to the best advantage, however, we believe it must be served by a full-time secretariat.

If the duties of such a body were purely mechanical, the arranging and servicing of conferences and meetings and the like, a continuing organization would not be required and the practice of having these tasks performed through a federal office could continue, although the increasing burden of work would unquestionably warrant a more specific allocation of adequate resources. We believe, however, that the responsibilities involved in the structure we have proposed could not be served on a casual basis. As we see it the work of such a group would include not only serving the conference of first ministers and the plenary conference but that of co-ordinating the activities of all other conferences and committees which form the intergovernmental system.

Such duties would be important and extensive and would include the tasks of arranging meetings, drafting agendas, keeping and circulating records of proceedings, etc. To meet the requirements which are called for, it

would be essential that the secretariat undertake duties beyond those of a purely routine nature. If it is to be a positive force, it will have to provide background material, preparing it where it was not otherwise available, maintain active communication between members of conferences and committees and, where necessary, originate activities which follow logically from the responsibilities of its place in the structure of liaison. It should be competent to co-ordinate studies if so instructed and aid in their preparation if this is required. We do not recommend that the secretariat should assume responsibility for original research involving positive policy proposals as this could be detrimental to its relationship with member governments. It should be qualified however to suggest any projects it considered necessary and be able to see them carried out either through member governments or by special contract arrangements.

We believe that as the secretariat developed it would be of great support to the conferences and committees in the assistance and guidance it would be able to give in its role as a trusted intermediary, as a vehicle for the communication of information and as an agent in the promotion of understanding and co-operation among member governments.

In view of the special place proposed for the

finance ministers' committee, we considered whether or not a special secretariat should be organized to serve that body. We do not think these responsibilities can be met without adequate staff support. Rather, however, than constitute such support as a separate entity the resource would be better provided as part of the main secretariat with necessary specialist personnel assigned to fiscal and economic duties. This is consistent with the close association of the finance ministers with the first ministers which we see as essential to effective fiscal and economic liaison.

We do not propose that a special permanent secretariat be established for the functional committees. Necessary secretarial requirements can be supplied through member governments as they now are in most cases, and coordinated by the main secretariat which can assume the responsibility for consolidation and analysis of reports in the broad policy contexts for the purposes of the first ministers and the finance ministers. Members of functional committees, as all others, would continue to report individually to their own governments.

Much, of course, will depend on how the functional committees develop. This will vary and some may become centres for specialized study and research. In such cases the proposed staffing is not likely to be adequate and the situation will have to be re-assessed. We would

urge, however, that the creation of special continuing staff bodies should be approached with caution as a proliferation of secretarial organizations attached to functional groups might solve one problem at the expense of creating a more serious one - the development of a new beaucratic structure in the Canadian governmental system.

Organization and Responsibility

Answers to the questions of the need for a continuing secretariat, its form of organization and its responsibilities have been hard to find. A number of problems arise which to our knowledge have not been answered in any of the various proposals that have been made from time to time in this connection. Involving as they do not only its effective performance but its acceptability as an objective instrument of intergovernmental co-operation, they cannot be ignored or left to settle themselves. No such organization can operate usefully unless it knows what it is supposed to do and where the lines of its direction lie. If it does not know the tendency will be for it to accomplish little of a positive nature, or at the other extreme, to take to itself authority which it was never intended it should have.

Accepting the view that the proposed secretariat

must be responsible to some person or some body, we have concluded that in principle this must be the Committee of First Ministers which we regard as the focal point of all intergovernmental concerns. At the same time we recognize that first ministers are not always readily available and that there will be many questions of a more or less administrative nature where guidance will be needed. We believe that common sense dictates that such matters should be referred by the secretariat to the senior officials' committee which we have proposed. In both cases the requirements of convenience suggest that communication will in routine matters be through the chairman of the committee. But we would emphasize that acceptance of this as a practical method should in no way inhibit direct communication with individual committee members where the situation seems to call for it. We do not see any real difficulty in this as presumably any person appointed to head the secretariat would be sufficiently astute to judge where such situations existed and to act accordingly. If he did not always judge correctly his errors would soon no doubt be made known to him.

This inevitably brings up the matter of the chairmanship of the committees and conferences. We see no reason why the rather distinct position of the federal government should not continue to be recognized as it has been in the past and the meetings of the first min-

isters and the plenary conferences presided over by the Prime Minister of Canada. We have encountered no objections to this in principle and it is supported by logic and concept as well as by tradition. We would go further and suggest that it would likely be the most suitable practical solution to have all permanently established federal-provincial conferences or committees chaired by the permanent representative of the national government. As the secretariat would almost certainly be located in Ottawa, the advantages of convenience in such an arrangement argue in favour of it, regardless of any principles that might be involved. The alternatives of a rotating chairmanship or of an independent chairman from outside government do not seem to provide a satisfactory alternative either in principle or practice.

What we have sought to provide in our proposal is a secretariat that will assist in the development of effective co-operation between governments but which will not develop for itself an identity that will intrude upon or replace the essential political processes of the federal-provincial relationship. In this respect the central organization of international bodies has not provided the necessary guidance. The role, for example, of the Secretary-General of the United Nations does not seem appropriate in the federal context. We are not

dealing with distinct and separate political entities which have agreed to consult on their common interests. We are dealing with what are essentially the individual parts of an organic whole whose political relationships are close and continuing.

Responsible as it is to all the people of the nation, the central government has a position and an obligation distinct from that of the individual states of a federation. Essentially the basic responsibility to preserve and promote the unity and cohesiveness of the country belongs to it and while the states can and will contribute to these ends in many important aspects through the influence of their assigned powers, they do not have the same fundamental purpose. If this were not the case the whole reason for the federation would in itself be suspect.

In the past it has been the practice for the Government of Canada to supply the conference with the necessary secretarial services. For example, the Privy Council Office has serviced the plenary conferences. The Federal-Provincial Relations Division of the Department of Finance has looked after the needs of the finance ministers' meetings and those of the Federal-Provincial Continuing Committee on Fiscal and Economic Matters. If the responsibilities of a secretariat are limited to the more mechanical aspects of the job, we see no reason why

such arrangements should not be continued. But if the responsibilities are more extensive, as we propose that they should be, some more independent arrangements will be required.

There are two possible alternatives. The most practicable, in our opinion, would be for the secretariat to be supplied from the resources of the Government of Canada, with the concurrence of the provinces on organization and personnel. This we understand is now being done for the Constitutional Conference. We see no reason why this should not prove satisfactory in practice, provided the federal government would be prepared to establish the organization on a continuing and independent basis outside the influence of its policy and direction. The secretariat in such a case would be strengthened by the seconding to it of Provincial personnel from time to time.

The second alternative would be for a completely independent secretariat to be organized, perhaps along the lines of that which operates for the Canadian Council of Resource Ministers. This approach lacks the clarity and the simplicity of the first with respect to problems of tenure and finance but these are certainly not insurmountable. Insofar as the relationship to the conferences and committees which it serves are concerned there does not seem to be any important practical differ-

ence from a federally supported but independent group although a matter of principle may be involved, the importance of which is a matter which can only be assessed by those directly concerned.

We are quite conscious of the objections that can be raised to the creation of an independent bureaucracy outside the scope of existing government organization. While they are valid, we would not attach sufficient weight to them to void the proposal if an independent secretariat is considered desirable in principle. We would, however, urge that as far as possible an independent secretariat should be staffed from the public services with officials seconded by their governments for reasonable terms. This would go some way at least toward reducing the influence of any third-tier bureaucracy which concerns many people. It would at the same time provide a more knowledgeable organization and might usefully broaden the experience and even raise the level of tolerance of the individuals concerned.

The question of the financing of the secretariat has been raised. We see no reason why the continuing costs of the operation (other than salaries and related benefits of seconded provincial personnel) should not be borne by the Government of Canada as part of its national responsibility. However, if some sharing of costs is thought desirable either in the case of a federally

appointed body or one fully independent, there should be no serious obstacle to agreement on a reasonable method of pro-rating the amount involved.

F. Research Organization

No one is likely to question seriously the claim that research in the field of fiscal and economic matters where intergovernmental interests are involved has been less than adequate. While the situation has improved in recent years with a substantial growth of interest in these problems on the part of the universities and other independent organizations, the greater part of the effective work in applied research is undertaken within government departments, especially those of the federal government. Valuable as much of it is, it is always open to challenge on the grounds of its objectivity, rightly or wrongly.

Except in the case of the Tax Structure Committee, federal-provincial co-operation in fiscal and economic research has not been very productive. Even there the difficulties of objective research by intergovernmental bodies in areas of mutual interests was unfortunately only too clearly illustrated.

Most government research, at least within departments, tends to be related to practical situations and solutions. Unavoidably, the necessary information is

often classified and unavailable to outsiders. This is probably as it must be, although sometimes classification seems to be carried to rather unlikely extremes. In any event this seems to indicate that a close relationship to government is an essential if effective applied research is to be fruitful in these areas. In such cases the responsibilities of the secretariat would be confined to the organization and co-ordination of material prepared within governments.

But this does not mean that all fiscal and economic research in intergovernmental areas must be carried on only within governments. There is an urgent need for more to be done in the general and theoretical fields of all aspects of Canadian federalism including intergovernmental liaison in all its aspects. We strongly recommend that greater encouragement and attention should be given by all levels of government to such studies. This can best be done by supporting the work of independent individuals and organizations as was done in certain areas of the Tax Structure Committee's work. In some cases this might be appropriately dealt with through the secretariat, in others it would be better to have special studies commissioned by individual governments where there was a special interest, with the work co-ordinated for the purposes of the intergovernmental committee or conference through the secretariat.

But the situation seems to warrant something more specifically designed for the purpose. In our reference to the United States we made mention of the useful work of the Advisory Commission on Intergovernmental Relations, a body established by Congress but widely representative of various interests, national, state and local. We think that a similar organization set up under Act of Parliament with provinces having an effective voice in the selection of members, would be of great value in the examination of many of the serious problems with which we continuously will be concerned.

G. Economic Advice

The Economic Council of Canada, while broadly based in its representation, is nevertheless a legal creation of Parliament. It is not a body in which the provinces can feel any substantial or direct involvement. Some provinces do have economic bodies very roughly equivalent to the Economic Council, but in most cases they appear to be neither active nor influential. The relationship of these bodies to the Economic Council has not proved a very effective one despite the efforts of the Council to make it so.

One possible answer to the need for a wider involvement in long term economic research commends itself to us as being worthy of greater consideration than it

appears to have had. At a conference of provincial premiers in Victoria in 1962, a proposal was made by the Premier of Manitoba, Mr. Roblin, that an economic advisory council should be established representative of both levels of government. Presumably such a council would not be directly representative of the individual provinces and Canada but would be selected from a slate of candidates put forward by the various governments. This would form a quasi-independent advisory group for all governments in much the same way as the Economic Council does for Canada. Such a council would tend to be regionally oriented rather than representative of various interests in the economy but it would serve the same basic purposes.

There are obvious difficulties in implementing such a system but if the structure of federal-provincial liaison is to be formalized some such advisory body for the first ministers and the finance ministers would be an essential element in the same way that an advisory group in intergovernmental relations could serve a different or related need. We suggest therefore that the present structure and status of the Economic Council should be re-examined to see whether or not it would be profitable to convert it into an intergovernmental advisory council for problems of the longer term rather than one that is solely the responsibility of the

Government of Canada.

H. Legislative Committees

While this area could be regarded as somewhat marginal to our terms of reference, we have encountered enough interest in the subject to lead us to believe it is of sufficient importance to warrant attention.

To the best of our knowledge neither in Parliament nor in any of the provincial legislatures is there any involvement of members through committees of the various houses especially charged with the consideration of intergovernmental relations. This is in contrast to the U.S. experience where a committee in each of the houses of Congress has a continuing interest in such matters.

As things now are, private members can become involved in these important matters only when specific bills or motions are up for consideration, during such debates as those on the Throne Speech or the Budget or in the examination of Estimates. The careful surveillance that could come from the work of a standing committee in which private members could play some continuing part is not available.

We attach particular importance to this because we fear that there is sometimes an inclination on the part of most governments to take to themselves a responsibility for long-term decisions on broad issues

of principle in which the electorate has had no voice. Some aspects of constitutional amendment provide a case in point where a broader consensus of public opinion seems called for. The value of a legislative involvement would be in its function as a counter-weight to the over-vesting of interests by governments in themselves. Through the use of standing committees and the examinations that they might conduct in public hearings, interested and informed members of the general population would have an opportunity to be heard that is not easily available to them under present executive control. We strongly recommend that any reorganization of the legislative process for Parliament or any of the provincial legislatures should provide for standing committees of Parliament or the legislatures in the field of intergovernmental relations. As informed and involved body of opinion in the legislative branches might go some way to resolving some of the artificial issues which can develop when political interests conflict with more fundamental requirements of the country.

I. Bilateral Arrangements

In a country as large and as diversified as Canada, there will frequently be economic situations which concern the federal government and one or more but not all the provinces. In such cases the structure of liaison

that we have proposed will need to be modified.

Provided that bilateral or non-inclusive arrangements are not used where the interests of all parts of the country are involved, we see such instruments as 'task forces', as having a useful role to play. Conferences or committees assigned to deal with particular situations can also be valuable in special circumstances. But such situations should be clearly explained to those governments not directly concerned so that no misunderstandings follow. Where there are situations which touch upon the interests of all provinces, all members of the federation should be consulted through the established machinery we have proposed.

In the economic fields in particular, certain bilateral programmes are entered into from time to time with continuing involvement of the parties concerned. In such cases the device of a crown corporation reflecting federal and provincial interests in the manner of the Cape Breton Development Corporation would seem to be worth serious consideration. This device contains the freedom of action of the corporation with the joint responsibility of intergovernmental agreement and might be more widely applied, particularly in special situations.

J. Regional Arrangements

Earlier in this report we discussed some suggestions that would have had federal representatives stationed in each provincial capital and conversely provincial representatives permanently located in Ottawa.

On the surface these two ideas may seem complementary. We regard them as serving quite different purposes. The federal government has a national responsibility which it can only perform adequately if it is conscious of the different attitudes and needs of the different regions of the country. It is an admitted fact that the Government of Canada sometimes is not well informed as to the developments in areas of provincial government responsibility where there is a national influence, until the situation has hardened to such an extent that the problems of reconciliation are multiplied. Such a situation is not lightly tolerated in international affairs although it may occur and while we accept the fact that the situations are not parallel, we see sufficient similarity to warrant further consideration. We recognize the objections, not the least of which is the danger of confusing normal channels of communication and authority, but the potential benefits under the right approach seem to offset them.

In theory, federal ministers and members from the different regions of Canada have performed this liaison

function, but we doubt that in the depth and breadth of their national responsibilities they can or should continue to do so. A department for regional affairs has just now been announced. We are not as yet entirely clear as to its intended responsibilities but presume that its purpose is to co-ordinate federal programmes with respect to their regional and national effects. Such a department can contribute a great deal to the improvement of liaison with the provinces if it has as one of its purposes the relating of national policies to the needs and wants of the various regions of Canada. There are, however, some potential hazards here of undue interference with the established processes of administration which suggest that any such agency must be handled with extreme care, intelligence and diplomacy.

All this, of course, is tied in to the need for greater regional authority in government departments within the carefully established limits of consistent policy. This subject was dealt with, if briefly, in the Third Annual Review of the Economic Council of Canada. Regional interest of the kind proposed could, we think, do a great deal to pull together the isolated threads of federal government authority in the regions so that they become part of a more effective fabric of governmental activity. If this is not a function of the new department, we suggest that consideration should be

given to the setting up of regional representatives in provincial capitals for this purpose responsible to the intergovernmental co-ordinating organization within the central government.

The advantages advanced with respect to provincial representation in Ottawa are not nearly so evident. The provinces are not charged with a co-ordinating responsibility and, while there would be occasional advantages in the convenience of communication that could result, we agree with most provincial people with whom we talked that introducing a further link between federal and provincial operating departments is superfluous. The resulting complications would far outweigh the benefits.

K. Internal Organization

It has been evident to us that one of the most important factors determining the effectiveness of intergovernmental liaison is the quality of the internal organization of governments themselves. This applies throughout the whole structure from the policy-making machinery itself to the operating departmental organization.

Although there have been noticeable changes for the better in recent years, governments generally have been content to leave matters involving intergovernmental relationships to the departments directly concerned.

Co-ordination as part of total government policy has often been lacking. If any evidence of this is needed, a reference to the list of intergovernmental committees, etc., should provide it. Where the co-ordination has existed it has been more as part of the financial process than as any part of the structure of total government operation.

Those governments which do not have the cabinet committees and related interdepartmental committees of officials would find it valuable to establish and use them. But in the growing complexity of the process this may not be enough. Some governments, notably that of Quebec and in a somewhat different way, Ontario, have found a special department or agency desirable in the central co-ordinating responsibility for federal-provincial matters. How far and how specialized the approach should be will depend on the extent co-ordination demands, the size of the government and the degree of control considered desirable. All governments may not consider an organization so influential as the Quebec Department of Intergovernmental Affairs necessary. But some co-ordinating unit should exist and should be placed in the special position which will enable it to deal with these matters of mutual involvement in a way that will eliminate much of the confusion which has been so typical of the situation in the past without interfering with the established flow of business which is carried on directly

between federal and provincial departments. Certainly we believe that a strong central authority in the Government of Canada is called for, preferably as a part of the Prime Minister's organization.

It has been common practice in the past for the finance departments to have a principal influence in these matters in both the federal government and the provinces. This is a recognition of the importance of the fiscal fact in federalism. We believe that it is essential that this continue and with particular weight in the matters of our direct concern, fiscal and economic policy. But so important are the questions of intergovernmental involvement that any central authority must be directly responsible to the office of the first minister and not merely be another department of government. Unless this relationship to the first minister is clearly established, the authority might better remain with the finance department. Regardless of how this is handled, the relationship of any such organization to the finance department would have to be very close.

But internal organization will, like intergovernmental organization, be no better than the people that run it. We have become very conscious in this study of wide differences in the resources that different governments are prepared to devote to their part in the liaison process. It must be recognized, although apparently it

not always is, that the effectiveness of a province's representations will depend as much on the quality of its representatives as on the merits of its case. While ministers and officials have usually made every effort to meet their responsibilities, the fact is clear that in some provinces inadequate provision has been made for the necessary support. Unless they are prepared to provide it, they are handicapped and have little cause to complain if their cause is dependent on the goodwill of others rather than on the merits of their case.

L. Procedural Matters

Questions of operating procedure may not be fundamental and in most instances will not involve any important changes in structure or organization. Nevertheless they can be of great importance, for while they do not provide final answers in themselves, attention to them may have a substantial influence in improving liaison arrangements.

Such matters can be divided into three interrelated sections: vehicles of co-ordination, personnel and procedures.

(1) Vehicles of co-ordination

- (a) 'task forces' of federal officials visiting the provincial government departments to work out details and adjust differences in programmes or policies in advance of formalization and subsequently for administrative

harmony, should be given greater emphasis than they have in the past.

- (b) 'consultants' on the staffs of federal departments should be made available to the provinces in matters of fiscal and economic significance as well as in programme areas where special knowledge is available. This is already done to some extent in special fields. In certain cases the service could flow in the opposite direction.
- (c) senior officials at both levels of government should make greater efforts to visit the various regions of Canada so that they may be better informed and consequently better able to assess situations with which they must deal. This applies particularly to federal officials in what might be termed broad policy areas, including officers of such organizations as the Bank of Canada.
- (d) modern communication techniques involving the use of such devices as 'Telex', the 'Ampliphone' and perhaps closed-circuit television, should be considered as possible substitutes for meetings of limited importance which while sometimes desirable nevertheless may not justify their costs in time, money or inconvenience.

(2) Personnel

As all governments presumably are interested in the same ultimate end, that of providing the best public service at the least possible cost, every effort should be made to avoid unnecessary conflict and competition. This is increasingly important in the field of intergovernmental personnel practices.

The supply of competent staff particularly at policy advisory levels is limited and should be used to the best advantage. For this reason co-operation should be sought not only through recruiting standards but through training programmes and facilities. We do not suggest an all-Canada public service, although it might have some real advantages in certain fields, but we do believe there should be much greater interest in the mobility of trained public personnel either by loan or by transfer so that the available sources may be used in the greatest public interest.

(3) Procedures

- (a) Improved conference 'housekeeping' with respect to such matters as the preparation and distribution of agendas, documents, background papers, and the like, would add substantially to the effectiveness and harmony of meetings. If a full-time secretariat is organized this should be covered automatically.
- (b) More attention should be given to the intangibles of co-operation in the more ready acceptance of the process as one of partnership rather than rivalry, avoidance of unnecessary rigidity in established positions in negotiation, 'one-upmanship' in the use of press releases and public interviews, leakages of information in advance of formal agreement or understanding, the presentation of the

'fait accompli' when negotiation was expected. All these, often minor in themselves, contribute to misunderstanding and resentment and make true co-operation doubly difficult.

- (c) It has not been the practice in federal-provincial meetings for votes to be taken either on matters of substance or procedure. Suggestions have been made occasionally that this should be changed and as an example the practice of one of the most effective inter-governmental institutions, the Australian Loan Council, has been given. Voting in intergovernmental bodies within a federal state raises a number of difficulties. The question of the relative power of the central voice as compared to those of the provinces or states is one of these. The relative weights of the different regional governments is another. All these might eventually be settled, although the process could raise other issues equally hard to resolve. But essentially the course of action rests on the fact that a federal-provincial conference or committee is not a decision-making body but a forum for seeking a consensus amongst governments, each of authority within its own defined limits. Under the circumstances the present procedure would seem to be the proper one.
- (d) Some thought might be given to a more equitable method of sharing conference costs among governments. Present practices tend to penalize those provinces geographically distant from Ottawa as compared to those relatively near. Greater consideration might also be given to holding more meetings away from the national capital. The advantages of the central location are obvious and in certain cases an Ottawa meeting is essential but in some situations the difficulties could be overcome and a more central meeting place chosen. There is precedence for this in a number of cases in meetings of

special groups. We do not however suggest that meetings of the first ministers should be held outside the national capital except under exceptional circumstances.

Concluding Remarks

The problems we have had to face in trying to develop a system of intergovernmental liaison in the broad field of fiscal and economic matters has been how to make possible a workable system of consultation and co-operation without interfering with the basic constitutional powers and responsibilities as they exist under our present governmental system.

We have proposed an extensive network of communication which we think is structurally more logical and direct than that which now exists. It involves the creation of certain new intergovernmental bodies, which we believe will be assuming, in most cases, responsibilities now carried on less effectively in other ways. The net dollar cost should be no more and could be less. The benefits that flow from this restructuring should in any case more than justify any expense that may be incurred.

We are confident that the changes we have proposed are consistent with Canada's present constitutional structure and will enable it to adjust more easily to today's changing need. We also believe the resulting structure will be flexible enough for any changes that

are likely to take place in the foreseeable future.

Throughout the study we have emphasized that we have been speaking of the co-ordination of information and of co-operation, not of joint decision-making. We do not regard this either as being consistent in most cases with assigned constitutional responsibilities in a federal state or with the responsibility of the government to its electors. Nor is it likely to be effective in most practical aspects.

While consultation should be extended to its fullest reasonable limits, we appreciate that such limits do exist. Governments will not always be able to consult fully in every aspect of their policies and activities even though the influence may sometimes be wide spread. Even when they have consulted they will still have to be prepared to assume the full responsibilities which are theirs. Thus we do not believe that the federal and provincial governments can act jointly responsible in all aspects of fiscal and economic policy. Certain major parts of it must be federal. Other important aspects are clearly provincial. It is incumbent upon each government to make its decisions on the basis of its own best judgment and consistent with its responsibilities within the federation and its duties to its people.

But nevertheless we emphasize that it is incumbent

upon each to consult with the others before a course of action is decided upon whenever it is appropriate and possible and to co-operate to the fullest extent when this has been done. Even in areas where the mutual interest may be more actual than legal, as say in the control of air transport policy from the federal side or in education from the provincial, the obligation remains. Both the national and the local interest will require that all factors be given proper weight in the policy-making process.

Very briefly what we regard as essential to a working federation can be summed up in the following requirements.

- (1) as clear as possible a definition of constitutional powers and responsibilities,
- (2) an effective internal organization of government for relating policies and programmes in different functional areas within a total policy framework,
- (3) a systematic structure of intergovernmental relationships with the purpose of all possible co-ordination of individual jurisdictional responsibilities, but stopping short of formal joint decision-making,
- (4) a political acceptance of mutual involvement and obligations which are inherent in any co-operative approach to federalism.

No structure of liaison can be more than a means to an end. Its ultimate value will depend on the use that is made of it and upon the degree of trust that is placed in it, always accepting the practical limits of differing

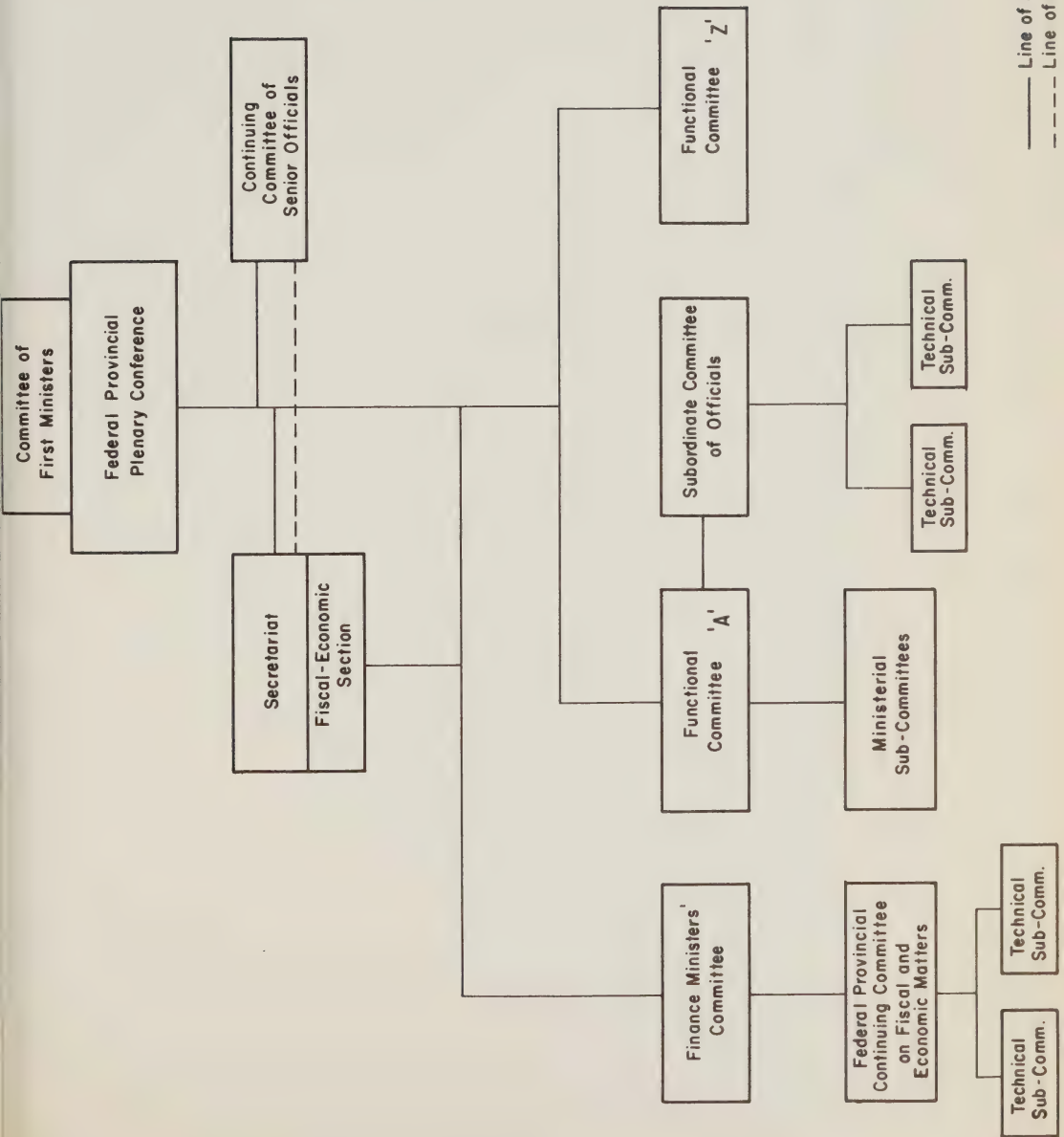
political interests. As J.A. Corry has said, "All significant problems of federalism are political in the deepest sense." This being so, what governments will get out of this mutual relationship will be pretty much in line with what they are prepared to put into it.

Note on the Chart of Proposed Organizational Relationships

Any attempt to chart the involved relationships between government organizations, particularly as between governments, is clearly open to having more read into it than is really there.

We have attempted to show in simple form the sort of lines of communication and authority that would exist under the proposals, but obviously there will be many cross-references, both informally and within the structure, that cannot be illustrated by a few boxes and lines. For example, in the text we have stressed the close relationship of the membership of the Senior Committee of Officials with that of the Continuing Committee on Fiscal and Economic Matters but this does not show on the diagram.

With such reservations, the chart may offer useful assistance in an understanding of the structure of the proposed relationships.



APPENDICES

APPENDIX A

ACKNOWLEDGEMENT

As indicated in the body of the report, this study depended heavily on information, opinion and advice gathered in personal interviews, in informal conversation and by correspondence with a large number of ministers of the Crown, public officials and private persons. In a vast majority of cases assistance was freely given and it is with gratitude that we acknowledge it.

The report gained from the special knowledge and advice of several expert advisers both as members of the research staff and as consultants on special assignments. Their names appear below.

However, the responsibility for the opinions expressed, the conclusions drawn and the proposals made is that of the Institute of Intergovernmental Relations.

Queen's University,
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R. M. Burns
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October 10, 1968

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APPENDIX B

TERMS OF REFERENCE

(Extract from the Memorandum of Agreement between the Minister of Finance of Canada and Queen's University dated December 15, 1966, for a comprehensive study of intergovernmental liaison on fiscal and economic matters.)

"1. The Institute shall conduct a study of the liaison between the Government of Canada and the governments of the ten provinces of Canada with respect to fiscal and economic matters and of how that liaison might be improved (hereinafter called the "project") and, without restricting the generality of the foregoing, the Institute in the project shall

- (a) identify the main areas in which fiscal and economic policies and programmes of the Government of Canada and the governments of the ten provinces operate, taking into account aggregate economic policies and major individual programmes, having regard to their common objectives, clientele and the regions covered thereby;
- (b) examine the administrative machinery which presently exists to harmonize the policies and programmes referred to in paragraph (a), analyze the effectiveness of that machinery, and suggest appropriate improvements or adaptations thereof, having regard to the constitutional, political and administrative implications;
- (c) enquire into various means for improving harmonization of the fiscal and economic policies of the Government of Canada and of the governments of the ten provinces including, but not limited to, such devices as projection of government revenues and expenditures, five-year capital budgets, methods for accelerating or retarding government expenditures, government accounting and budget practices;
- (d) examine the present and potential uses of the devices referred to in paragraph (c)

including any constitutional, political and administrative implications thereof;

- (e) review the available literature relating to the harmonization of federal and provincial or state fiscal and economic policies in other federated countries and report thereon in writing to the Minister.

APPENDIX C

Experience in Other Federations as Related to the Canadian Case

If the term is taken in its broadest sense it is possible to count some eighteen countries which use some variation of the federal form. But this requires a very broad interpretation indeed and in terms of any comparability to the Canadian case the number can be reduced to a more modest one.

It has always been a temptation to develop a system of government by drawing on the experience of others. Where the basic conditions are sufficiently alike the process has much in its favour. This use of past experience has been a common basis for the construction of federal constitutions. All owe something to the modern original of the United States. Canada drew upon that experience, although more often in a negative rather than a positive sense. Australia, too, placed heavy stress on the United States example and to a lesser extent the Canadian adaptation of it. India relied on Australian procedure while the new Africa and Asian federations have tried as best they could to adapt the processes of more developed countries to their own unique problems.

In this search for possible solutions to our own problems of intergovernmental liaison in fiscal and eco-

conomic matters, we have followed a similar path and have examined, often in considerable detail, methods employed in the United States, Australia, India, Switzerland, West Germany, and the newer federations of Asia and Africa. We have also looked with interest at the organization structure of the European Economic Community. The examination has given us many interesting ideas but unfortunately application of such ideas requires a framework of compatibility which in most cases we have not had.

On first glance, we would expect the Commonwealth of Australia to provide us with some useful guides to the development of a system of fiscal and economic liaison. It has after all developed and used a structured system with considerable effect. The strong similarities of our economic interests to those of the United States would lead us to expect a fund of experience in that country on which we could draw. India, as a newer federation, has developed an intricate system of relationships as have some of the newer federations such as Malaysia and Nigeria. Even the ill-starred Federation of the West Indies had some negative values for our study.

Our examination of the institutions and systems of other federations has led us to this conclusion, that within the limits of our terms of reference, which after all are concerned with liaison and not with constitution-

al change, we can benefit most from a study of three federations whose problems have perhaps more significance for us than those that we may appear to neglect.

We have therefore chosen to examine in some detail the United States, Australia, and India. The first two are developed countries with many similar fiscal and economic problems. The second two, Australia and India are parliamentary democracies. India itself presents a background for federation in a multi-cultural society and gives us many examples of how the institutions of government may operate under the heavy stresses of this and other factors. We did not neglect the others but our attention has been limited to a comparative consideration of approaches to problems rather than to the more fundamental examination carried out on the three countries mentioned.

The United States of America

Canada and the United States are similar in many ways. Common problems have had to be dealt with in both economics and finance. Both countries have had the need to accommodate regional interests in a land of great geographic extent and variations of natural wealth. Sometimes the regional interests have been in conflict with the total national goals. Problems of centralization and decentralization have periodically confronted

both systems.

There are, however, some basic differences which extend through the whole federal concept and make direct application of the lessons of experience difficult and sometimes misleading.

While both countries have strongly heterogeneous populations with representatives from many cultures, this must be qualified by the factor of the strong concentration of one ethnic group, the French-speaking Canadians who make up nearly thirty per cent of the total population, four-fifths of which is in the Province of Quebec. Such an influence does not exist in the United States and its effect on the course of our study has been an important one.

There are other differences. Traditional values in the United States sprang from revolution and from revolutionary philosophies. In Canada, this spirit and strong concepts of individual rights and Jeffersonian democracy were not factors and the new nation grew more from administrative colonialism. In some respects a continuing belief in the stature of the law as against the ideals of the individual rights has carried through the evolution of this country to today.

The size and number of provinces in Canada as compared to the much more numerous and smaller states is a factor of practical importance that we cannot neglect

when any assessment of intergovernmental interests are considered. It is difficult to visualize an effective coalition of fifty states. Under certain circumstances a coalition of strong provinces in Canada could exert irresistible power. There are also important differences of operation of a federal state in a parliamentary system from the presidential system with which we have already dealt.

Thus Canada cannot be studied merely as a variation on the basic North American trend. There are fundamental questions of Canadian political structure which are difficult enough in themselves to answer without trying to fit them into some preconceived mould.

While constitutionally the United States is a more decentralized federal form than Canada with residual powers vested in the states rather than in the national government, in practice the situation is substantially reversed. This has come about in a number of ways, by practical administrative action and by legislative processes, especially by conditional grants and joint programme, by fiscal policies, through court decisions, and less often by constitutional revisions. While there have been periods where state-rights attitudes have had great strength, over time there has been a continuing process of cross-involvement in which the financial initiative of the central government in areas of state

operations has been of critical importance.

As in Canada the influence of economic and military crises have been of great effect in the strengthening of the central power in fiscal and economic fields. But in the United States, the lack of strong concentration of resistance due to the dispersion of state authority has made it less possible for the states to recover ground thus lost. In fact, as with President Eisenhower's attempt to return powers to the states in 1957, they have been less than eager to assume their traditional rights. The whole federal-state relationship in the United States has from quite early in its history, shown a complex chart of inter-connection between federal-state, federal-state-local, federal-local, federal-private and federal-state-private bodies which is not likely to be easily altered.

While the federal influence pervades in the United States, it would be an error to overstate its extent. What do the facts tell us about the partnership? In cash outlay, the federal share of total government expenditure has increased from 34.5% in 1902 to 64.3% in 1962.¹ But until the Second World War, combined state and local expenditure still exceeded total federal ex-

¹D.S. Elazar, American Federalism, Crowell, N.Y., 1966, p. 63.

penditures. Since 1945 when as a result of war costs, the national government's share was well over 90% of the total, these proportions have been narrowing to the point where local and state spending is now close to 40% of total public expenditure, including defence. This is in a period when defence and defence related expenditure made up some 70% of total federal expenditures. In civil functions, state-local expenditure by 1960 had risen to 70% of the total from 61% in 1948. It would be a mistake, however, to ignore defence spending in any assessment of federal influence. While not a matter of intergovernmental financial arrangements, the impact of defence spending on state economies and on their responsibilities can be very great.

Although from the trends made evident in the above figures the drift to centralization in the American federal system might appear to have been exaggerated, there has been a strong influence of federal power over state and local activities. The United States, unlike Canada, has never accepted the use of unconditional transfers and the aid granted to state-local activities has been exclusively concentrated in specific programme areas. The result has been that while the total influence has not been as great as in the Canadian case, it has been directed in such a way that a very important central influence over state activities has often resulted. As

Elazar notes: "From public welfare to public recreation, from national defence to local police protection, the system of sharing has become so pervasive that it is often difficult for the uninitiated bystander to tell just who is doing what under which hat. The highly institutionalized system of federal-state co-operation which has developed has become part of the nation's constitutional tradition. Under this co-operative system, the federal government, the states and the localities share the burden for the great domestic programmes by making larger governments primarily responsible for raising revenues and setting standards, and the smaller ones primarily responsible for administering the programmes."²

This has not always been a one-way street with federal usurpation of state and local functions being the order of the day. In fact in a number of cases, federal powers have been shared voluntarily by Congress with local governments.

The pattern of federal activity in the United States has, in certain respects, been like our own. There have been few cases of actual federal expansion at the expense of existing state activities. Federal involvement has usually been in the nature of an encouragement of state

²Ibid., p. 53.

activity where no action has been forthcoming to fill an accumulating demand. In some respects federal action has resulted in an expansion of the scope of state governments rather than its retardation.

While in an administrative sense the degree of federal control often has been important, in practical terms it has been politically difficult for the central government to apply sanctions to state violations of federal conditions due to the political involvements. The inability of the federal government to resolve civil rights questions is quoted by Elazar as an example.

The situation in the United States is governed by two principal factors: first, the very large number of governmental units which are involved in greater or lesser degree in each others interests (in 1962 well over 91,000 separate governmental units were said to exist) and, the involvement of these relationships in particular public programmes rather than in the broader financial relationship of unconditional transfer.

The result of this has been an extensive complex network which tends to become institutionalized in relation to particular fields of interest. The overlapping jurisdictions and inter-connecting lines of authority make the situation difficult indeed to study and even more difficult to apply in the policy-oriented field of fiscal and economic liaison.

As we have already noted, the application of U.S. experience to the Canadian situation is complicated by the different form of government - in the separation of legislative and executive powers. The significance of this in any intergovernmental dispute between the federal and state governments, is that while all have direct political appeal, as a court of last resort this is much more feasible in the looser party discipline of the American system than in the rigid attitudes of the parliamentary form. Sometimes in fact, the battle may be fought in Congress with the Senate as the main field of conflict.

The influence of interest groups would appear to be a more vital force in such matters than we have been accustomed to. In any assessment of the various vehicles of co-operation, it is useful to consider the relationship as a vast access route to a destination where the important decisions of government policy are made. Groups within governments and without, from the states, from local government, from the bureaucracy itself are continuously attempting to influence the way in which government decisions are made. The opportunities which are open are augmented by the decentralized nature of the party system and as a result often suffer from a lack of discipline that is essential to the creation of co-ordinated public policy.

Prior to the Truman administration very little

effort was made to establish any formal machinery of intergovernmental liaison although a great deal of effective communication did exist on a particular programme basis. President Roosevelt, who was in office in the period of great growth in central power from 1932 to 1945, believed in a competitive theory of administration, highly personalized, in which formal lines of communication had little place. The result was that no intergovernmental structure of consequence came to be developed in his period.

It was not that there were no attempts at developing lines of communication. In the early 1940's, the federal Bureau of the Budget opened a field office on the West Coast and the Pacific Coast Board of Intergovernmental Relations came about as a result. While its initial purpose was to conduct war-related activities among federal, state and local authorities, it did, on a voluntary basis, develop some useful activities in discussions of intergovernmental problems. Much of its success seems to have been dependent on the interest of those in high authority, including such men as Governor Earl Warren of California and the Pacific Coast representative of the Bureau of the Budget. Especially important was the interest President Truman had in the work of the Bureau of the Budget and his desire to institutionalize rather than personalize the

work of the President's office.

There is an important lesson here. In matters related to policy, unless those at the top are seriously interested, the prospects of effective co-operation are very limited in the long term. This is further illustrated by the fact that with a change in the presidency and in the philosophy of government under President Eisenhower, the field offices of the Budget Bureau were closed and the Pacific Coast Board of Intergovernmental Relations was disbanded in 1953.

Particular areas of mutual interest have been the subject of a good deal of activity at the inter-state level. Most of this came into being in the 1940's in fields of state activity such as higher education, mental health, civil defence, purchasing, law reform, river control, etc. This co-operation has resulted in a goodly number of permanent bodies under inter-state agreements often with a regional base. While as a rule the federal government has not been involved unless federal funds were in use, there is some evidence of an increasing concern in Congress as to the implications of developing inter-state relationship. There is also some evidence of a desire in some programme areas to draw the federal government into the compact or partnership, in order that the power and authority of that government may be used for the objectives. Graves raises

some question as to the ultimate effect of this development.³

In the more general field of inter-state co-operation, there are two bodies of particular interest: the Council of State Governments and the Governors' Conference.

The Council of State Governments is an intergovernmental agency created in the 1920's and supported by all the states. Its basic purpose is to assist in the improvement of state governmental practice, to help in solving inter-state, regional and national wide problems and generally to facilitate the easy functioning of federal-state relations. The Council maintains a permanent organization and provides the secretariat for many special conferences and associations connected with these inter-state activities. It undertakes research in contemporary problems often at the request of one or more states. On occasion it has acted as an arbiter in interstate disputes.

The Council has acted to facilitate interstate cooperation in two particular ways: 1) by programmes of joint action among two or more states, usually regionally related; 2) by joint studies among all states or

³W.B. Graves, American Intergovernmental Relations, N.Y., Scribners 1964, p. 608-610.

those to which a problem is particularly relevant. While successful in the technical and programmatic aspects of its work, the impact of the Council on the broader fields of federal-state relations appears to have been limited. This may in some part be attributed to its rather catholic nature. Representative as it is of fifty units of vastly different interests, its development of a consensus on matters of policy is a matter of some difficulty.

The Governors' Conference was convened by the first President Roosevelt in 1908 to consider natural resource conservation. It serves a more political purpose than the Council of State Governments. While on occasion it has proved a useful device for co-ordinating state efforts with the federal government in times of emergency, it has not been averse to groupings in support of special regional interests.

Any assessment of the Governors' Conference as an instrument of intergovernmental co-operation is difficult. It is perhaps indicative of its lack of positive influence that it has attracted relatively little public interest. While those authorities that have concerned themselves with it seem to agree to its utility in principle, it is difficult to find any detailed assessment of it as an institution. At best it seems to have had a modest influence on the development of public policies.⁴

⁴Glen Brooks, When Governors Convene, Baltimore, John Hopkins, 1961, pp. 109-126.

Having extensive resources at its disposal, the Conference has grown into a permanent extra-constitutional body complete with its own bureaucracy, constitution, procedures and committee system. Brooks⁵ has enumerated three basic functions of the Conference. First, it enables the governors to direct group political influence on the central government, although with political rivalries this pressure does not appear particularly effective. Second, the governors are all given opportunity to study and discuss mutual problems. Third, the governors are given a nation-wide forum for their various political activities, ambitions, an opportunity they seldom neglect in election years. Whether these functions justify the existence of the Conference is open to question in the minds of some of its observers.

Legislative involvement is an important influence in intergovernmental relations in the United States, certainly more so than in Canada. While Congress has always maintained its prerogative of an active interest in the administrative branch, it was only in 1946 under the Legislative Reorganization Act that formal sanction of this interest was provided. This act specifies that the standing committees of Congress on government operations in each house:

⁵ Ibid.

"...shall exercise continuous watchfulness of the execution by the administrative agencies of any laws, the subject matter of which is within the jurisdiction of such committees."

The operative body in the field of intergovernmental relations has been the Sub-committee on Intergovernmental Relations. The interest in federal-state liaison has been of increasing importance since the mid fifties. Between 1955 and 1957 the House Sub-committee undertook a comprehensive investigation of the question of the implementation of the recommendations of the Kestnbaum report on federal-state relations. It also held exhaustive investigations on the Report of the Joint Federal-State Action Committee in 1957,⁶ and on the proposals for the appointment of a permanent advisory committee on intergovernmental relations in 1959.

While both these sub-committees have done and do effective work, that the House of Representatives appears to enjoy greater prestige within the Congressional Committee hierarchy, perhaps as a result of its greater activity. It is in the review of programmes in operations that the Congressional committees appear to serve their most effective purpose.

Since 1947, there has been almost continuous agitation in the United States Congress for the establishment

⁶See W.B. Graves, American Intergovernmental Relations, N.Y., Scribners, 1964, pp. 900-904.

of a body concerned in intergovernmental affairs, although the idea does, of course, go back much further. The first Hoover Commission in Government operations in 1949 proposed the creation of a continuing agency in federal-state relations with responsibilities for study, information and guidance. But it was not until 1953 that specific action was taken through the appointment of a temporary Commission on Intergovernmental Relations (the Kestnbaum Commission). This Commission was directed *inter alia*, to study the proper role of the federal government vis-a-vis the States, and to clearly delineate respective jurisdictions for each level of government. In its final report (1955) the Commission stated that "the proper functioning of the federal system requires that concentrated attention be given to interlevel relationships", and it recommended the establishment of a body to effect these.

The result of this was the creation by the Act of Congress in 1959 of the Advisory Commission on Intergovernmental Relations. It is a unique organization in that while it is a legal creation of the United States Government and is supported solely by it, it is representative of a wide range of American public life. It is a body of twenty-six members drawn from the following sources:

- 1) six appointed by the President, three of whom are members of the executive branch of the government and three private citizens, all of whom shall have had experience or familiarity with relations between levels of government:
- 2) three appointed by the President of the Senate, who shall be members of the Senate:
- 3) three appointed by the Speaker of the House of Representative, who shall be members of the House;
- 4) four appointed by the President from a panel of at least eight governors submitted by the Governors' Conference:
- 5) three appointed by the President from a panel of at least six members of state legislative bodies submitted by the Board of Manager of the Council of State Governments:
- 6) four appointed by the President from a panel of at least eight mayors submitted jointly by the American Municipal Association and the United States Conference of Mayors:
- 7) three appointed by the President from a panel of at least six elected county officers submitted by the National Association of County Officials:

Certain restrictions are placed on political affiliations so that there can be limits on the extent of the partisan approach. Members are appointed for two years but are eligible for reappointment.

The purpose of the Commission is best set out by the "Declaration of Purpose", which makes up Section 2 of the Act under which it was formed. These are to:

- 1) bring together representatives of the Federal, State, and local governments for the consideration of common problems:
- 2) provide a forum for discussing the administration and consideration of federal grant and other programs requiring inter-governmental co-operation:
- 3) give critical attention to the conditions and controls involved in the administration of federal grant programs:
- 4) make available technical assistance to the executive and legislative branches of the federal government in the review of proposed legislation to determine the overall effect on the federal system:
- 5) encourage discussion and study at an early stage of emerging public problems that are likely to require intergovernmental co-operation:
- 6) recommend within the framework of the Constitution, the most desirable allocation of government functions, responsibilities and revenue among the several levels of government and
- 7) recommend the methods of conducting and simplifying tax laws and administrative products to achieve a more orderly and less competitive fiscal relationship between the levels of government and to reduce the burden of compliance for taxpayers.

While in terms of such institutions, it is perhaps early to make any definitive judgment, the general consensus is that the Commission has operated with a good deal of success in fields of technical rather than of philosophic application, especially in fiscal and economic areas.

To a substantial degree, the Commission's success

may be attributed to three cardinal features, perhaps in some respects less than common in such organizations:

- 1) it has produced first class research work:
- 2) it has operated on an economical and efficient basis within a relatively modest budget (it had a total staff of 23 in 1966, of whom 10 were professionals):
- 3) it has produced a ready source of technical assistance and effective communication for all branches of government. This service is regarded as a highly satisfactory one by the Committee on Government Operations.

While there was some opposition to its appointment from within the executive branch of the federal government, this seems to have been largely overcome. Informed people now seem to agree that the work of the Advisory Commission has inspired federal, state, and local government officials to make more concentrated efforts toward the improvement of intergovernmental liaison, than would otherwise have been possible.

While its influence on actual executive decision-making and on the form and nature of American federalism have not been all that great to date, there would seem to be a very good chance that the Commission will have an increasing role in federal-state-local relations in the future. As in all these things, much will depend on the continued interest of the political

masters and the excellence of the permanent personnel.⁷

The Commonwealth of Australia

At first glance one would expect to find a great deal of similarity between the development of Australian federalism and that in Canada. Both are countries of great geographic extent. Both were outgrowths of the British parliamentary system. Both were at early stages in a period of rapid economic growth. Australia as a developing country has faced problems which in many ways are like those Canada has faced but there have been a number of important differences which have influenced the manner in which this development has taken place.

Australia, as a reasonably homogeneous country in terms of its population, historically has faced a smaller variety of stresses on its national identity than Canada, even though at times some have been intense. Those it has had have been largely in areas of fiscal and economic policy, and on occasion they have operated with considerable force. As a leading Australian authority, Professor Sawyer has said "... if Australian experience illustrates the truth of Dicey's

⁷For further information see the Annual Reports of the Advisory Commission in Intergovernmental Relations, Washington, Government Printing Office, and D.S. Wright, in Public Administration Review, Vol. XXV, No. 3, Sept. 1965.

phrase that Federalism is legalism, it also suggests that Federalism is finance."

Australia has found, as has Canada, that the equating of revenue resources with government functions for both levels of government in a federation is a difficult objective. The fundamental problem is that familiar if elusive end, the determination of priorities. And even if the relative significance of functions does not change, any balance between functions and tax revenues will be difficult to maintain since some taxes exhibit much greater flexibility of return than do others.

Much more than in Canada, except in the period of the war and post-war years, there has been a progressive tendency in Australia for the control of fiscal power to become centralized. This has been true particularly of the revenue sources, and as the expenditure demands have grown in the states, their dependence on the bounty of the Commonwealth has been emphasized.

Constitutionally, the Australian states have a stronger position than the Canadian provinces relative to the central government. The Commonwealth has few exclusive powers and most powers are concurrent in nature but with the law of the Commonwealth prevailing in cases of inconsistency. What has happened in Australia is a good example of the influence of fiscal forces in a federation where the normal centripetal

influences of today's society are not modified by important social or cultural factors. Despite its more limited constitutional power in Canadian terms, the Commonwealth Government has been able by virtue of its financial powers to establish a strong position. This it has been able to maintain, despite the increasing responsibilities of state government in a large dispersed geographic area demanding a substantial degree of administrative decentralization.

In its path toward fiscal control, the Commonwealth Government has utilized the opportunities provided by economic and military crises, to establish its power. In the process it has been supported by decisions of the High Court much more favourable to its case than were the Privy Council decisions to the Dominion Government in Canada. A very few key constitutional amendments have also served to reinforce its position.

One might too easily assume that the Australian states have sold out all their effective governing power. This is not the case for they enjoy legislative autonomy in a wide field of public activity and while heavily dependent on federal funds, these have usually been untied. Conditional financial assistance, paradoxically perhaps, has been relatively limited to a few specific purpose grants.

Nevertheless, an examination of the situation has

led most observers to the conclusion that the principle effective power is exercised by the Commonwealth and that there is no strong and consistent political opposition to a continuance of the trend although the states are not without their advocates.

The development of Australian federalism is thus really a history of financial relationships. It falls into six main periods since the union was formed in 1901. For our purposes these are important not in themselves but for what they tell us of the growth of federal political administrative institutions.

1901-1910

Under Section 96 of the constitution, the Commonwealth was given power to provide such financial assistance to the states as it saw fit. This flexibility was the root cause of much of the negotiations mixed with controversy that were characteristic of this formative period in the centre-state relationships. In this phase of the federal development the pattern of frequent consultation was established as a matter of necessity. There was particular emphasis on inter-state meetings in which efforts to develop a united front were not uncommon. The Commonwealth was often invited as a guest to those meetings but not as an active participant. These inter-state meetings usually took place on a high

political level and developed into what came to be known as the Premiers' Conferences. They were in fact not a new development but a continuation of the Inter-Colonial Conferences which had preceded federation.

1910-1927

In this period the growth of the financial authority of the Commonwealth became manifest. The financial agreements of the previous period had not proved satisfactory to the states whose difficulties were compounded by the burden of heavy investment for development purposes, the returns on which, as is often the case, were unduly delayed.

Problems of state revenue and the assumption of state debts which had been provided for on a permissive basis in the constitution, dominated much of the negotiations of this period. The situation was further complicated when in 1915, as a result of war needs, the Commonwealth entered into the field of income taxation which had been an area of sole state interest although at low rates.

In 1920 a Commonwealth Royal Commission was appointed and reported that there should be a clear division of tax fields with the central government controlling the income tax exclusively. The states were to have sole rights to other direct taxes including probate

and successions, land and entertainment.

No agreement could be reached but a first step toward effective co-operation resulted in the tax collection agreements between the Commonwealth and West Australian governments for the collection by the centre of all state taxes. In 1923 all states other than West Australia undertook the collection of Commonwealth income taxes.

Unsuccessful proposals were made in 1923 for the states to assume the personal income tax for five years as a step in settling the recurrent financial squabbles. In the same year the first conditional grants for Commonwealth aid to state road construction was made. This was greeted with the now familiar arguments of federal interference and the distortion of state spending priorities.

Matters came to a head in 1926 when after an unsuccessful attempt to reach a solution by a revision of the unsatisfactory system of per capita grants was rejected, the Commonwealth unilaterally proposed to discontinue them. A conference of the Premiers was called which the Prime Minister declined to attend. As a result of concerted state opposition, the bill to cancel the per capita payments was not proceeded with.

1927-1941

A Commonwealth-state conference was convened in June 1927 and new financial proposals were made involving the take over by the national government of the state debt offset by the discontinuance of the per capita payment. The final result was an important one for the Australian intergovernmental fiscal relationships.

The Financial Agreement Act of 1927 provided for the take over of state debts and the adjustment of interest and sinking fund charges. But from the point of view of our interest here, the most important result was the establishment of the Australian Loan Council. This body's powers cut seriously across some of the principles of responsible government in that they deprived the Commonwealth and State parliaments of the power to borrow independently. This power was conferred upon a supra-legislative body representative of state and Commonwealth governments.

The 1927 financial proposals were eventually accepted by all states and in 1928 were the subject of a constitutional amendment.

This financial agreement was the centre of Commonwealth-state fiscal activities for this period to the early years of World War II. The Australian Loan Council became the controller in fact of national economic policy in the depression of the 1930's with the related and

overlapping Conference of Premiers' from whence came the three-year plan of economic rehabilitation known as the Premiers' Plan.

The period of the 1930's was one of great difficulty for Australia. The rigors of economic depression resulted in some acrimonious controversies highlighted by the New South Wales debt default and the unsuccessful attempted secession of West Australia. It is a measure of the central power that the Commonwealth was able to make good the state default and unilaterally recover the cost from payments due to that state. The affair eventually led to the dismissal of the state government.

It became clear early in this period that the problems of regional disparities were not going to be solved by the basic financial provisions alone and it was as a result that the Commonwealth Grants Commission was established in 1933 to report and recommend on matters of special financial aid.

1942-1946

As in Canada, the demands of war finance made federal activity in fields of state interests unavoidable. In June 1941, the Prime Minister proposed that the states should vacate the income tax fields for the war in return for federal grants.

The actual proposal had much in common with our experience under the Wartime Tax Agreements. Acting on a report of an independent committee, the Commonwealth proposed that the state should relinquish the income tax fields for the required period of the war plus one year in return for grants based on the level of collections in each state from that source.

Unlike in Canada, surprisingly enough, the states rejected the proposal. One must assume that their much more active experience with federal financial relations under the Financial Agreement of 1927, had made them somewhat less trusting of federal intentions.

The Commonwealth Government under the circumstances had little option but to proceed and by mid-1942 had achieved its objective by four federal statutes. These gave the Commonwealth Government priority over the states in income tax for the entire duration of the war plus one year. Payments were provided to each state equal to the average return from the tax in the period 1939-1941 on the condition it ceased to levy state income tax. Legal provision was made for a federal progressive income tax. And there was to be a temporary transfer of state tax records and personnel the Commonwealth for the period of the agreement. Obviously this was a drastic solution which took no account of the relative position of the state vis-a-vis the use of

these tax fields.

The constitutionality of these acts was challenged in the High Court but was upheld.

Subsequently in 1942, provision was made for uniform entertainment tax on a reimbursement basis and for additional financial contributions to states on a needs basis where the reimbursement grants could be demonstrated to be inadequate.

Post-War

The Commonwealth Government was greatly attracted by its experience with uniform taxation. At a Commonwealth-state conference in January 1946 it proposed to continue it indefinitely. The reasons advanced were similar to those we have been familiar with in Canada. In the words of Prime Minister Chifley the need was stressed "not only to ensure that sufficient revenue is raised in the most economical way to finance the increased commitments of the Commonwealth, but also, by reason of uniformity in the incidence of income taxation, to assist the Commonwealth to implement successfully the requisite financial policies required in connection with matters (such as the maintenance of high levels of employment) which affect the Australian economy as a whole."

Despite state protests as to the need for regional

flexibility in tax policy which they felt could only come with their participation, the Commonwealth was determined to proceed in what it regarded as the national interest.

However adjustments were made in the reimbursement payments by bringing in growth factors of population and wage index changes. In the years following, a number of other alterations were made and more complex indices were introduced into the calculations. Eventually the reimbursement payments reached a point where they now have little real relationship to the amount of income tax collected in each state. They have become straight financial payments.

All through this period the problem of the payment in tax reimbursement to the states was the principal topic at the annual Premiers' Conferences. While, as noted some arbitrary changes in the bases of payment were made and the resumption of state taxation was discussed, the Commonwealth was determined to maintain its position and little of consequence was changed. Victoria challenged the validity of the uniform tax legislation but a judgment of the High Court in 1957 upheld the federal position in most important respects.

By 1959 it was clear that further adjustments were going to be required. At the Premiers' Conference in June of that year, new Commonwealth proposals were submitted. Under the new States Grant Act of 1959 it was

proposed that the payments no longer be regarded as tax reimbursement grants but be recognized as straight financial assistance payments.

Despite the constant bickering that went on between the Commonwealth and the states and on occasion among the states themselves, the rather lop-sided financial arrangements were generally accepted in principle. There does not seem to have been any real opposition except in detail to the equalization effects which have strongly favoured the relatively poorer states. This is perhaps a good measure of the strength of the federation itself.

Since 1959, the Premiers' Conference has continued to be the main scene of most of the argument about financial assistance. In fact this has been its principal reason for being. Problems of public financing have been dealt with through the interlocking machinery of the Loan Council. Despite the existence of the Commonwealth Grants Commission the great bulk of the financial transfers have been a matter of unilateral Commonwealth decision or of negotiation at the political level subject to all the pressures which operate under such circumstances.

In 1965-66 the total of financial assistance grants to the states was 70.6% of all Commonwealth-state payments. Specific purposes grants made up another 25.7% while the specific grants of the Commonwealth Grants

Commission were but 3.7% of the total. Under these conditions an examination of the institutions and processes of intergovernmental liaison in Australia needs to be a cautious one. It is easy to exaggerate the objective nature of the processes which seem to be, more than most people believe, essentially a political division under strong central dominance.

If one looks carefully at the results it is not too difficult to conclude that many of the federal influences as we know them in Canada do not apply with force in Australia. In essence some observers believe a widely decentralized unitary state may be the answer to the problem of government there rather than the federal form although this solution would not likely be politically acceptable to the states.

There are three particular institutions in Australia that we should look at in the circumstances of their operation and with respect to their purpose and importance, in the Australian federal scene. The Premiers' Conference or more properly the Conference of Commonwealth and State Ministers, the Australian Loan Council and the Commonwealth Grants Commission. Each serves a particular purpose although the total objectives are usually closely related. There are as well a number of other liaison groups such as the Standing Committee of Federal and State Attorneys-General and

regular conferences of the Agriculture ministers but these serve a special purpose not directly related to our particular concern.

The Conference of Commonwealth and State Ministers

The Conference of Commonwealth and State Ministers is better known by the name of the Premiers' Conference. Following federation in 1901, the states of the new Commonwealth continued the practice of meeting and for the first twenty years or so after federation these conferences were called in the main on the initiation of the states themselves. For a number of years the secretariat was provided by New South Wales.

In the earlier years the Commonwealth was often represented by the Prime Minister or other ministers in the capacity of a guest rather than as a member of the conference. But as the situation became more and more one of a federal-state relationship the Commonwealth took a more vital role and after about 1920 was assuming the initiative in calling the meeting, although the state premiers often met separately at the same occasion.

As financial matters usually dominated the discussions, the Prime Minister and the Treasurer usually represented the Commonwealth. There were other ministers present when matters of their departmental interests were involved. Similarly, the states were repre-

sented by the premier and the deputy premier or treasurer and such other ministers who might be directly concerned.

While strictly speaking a separate organization with separate functions, since the establishment of the Australian Loan Council in 1929 under the Financial Agreement Act of 1927, the Premiers' Conferences have been held in conjunction with Loan Council meetings. Under the accepted procedure the Conference can thus be called on the initiative of the Commonwealth alone or on the request of three states. Custom requires that there be at least one meeting each year and further conferences are called to cope with special problems that may from time to time arise.

Some additional importance has been attached to this institution by the fact that the Senate, which was originally intended to represent the states, has failed to play this role because of strong party allegiances. This is an interesting contrast to the development in the United States which was the model for a good deal of the Australian plan. This may be a confirmation of one of the problems of federalism in the parliamentary system to which we referred previously.

From its inception up until the Financial Agreement Act in 1927, the Premiers' Conference acted mainly as a forum for the protection of the States' financial interests and to a much smaller extent as an agency for

the development of co-operative solutions to other mutual problems of Australian federation. After 1927, the conference assumed a more effective role as an agency of federal-state co-operation, perhaps due to the fact that from 1927 until 1941, grants were not a fundamental and contentious issue. During the depression years, the Premiers' Conference did play a useful role in securing some degree of co-ordination in economic policy between the Commonwealth and the states.

But with development of the uniform taxation policy of 1942, financial relations again assumed first importance and the question of distribution of the tax reimbursement grants has been the centre of strong and often acrimonious debate.

In many ways, the Premiers' Conference shows strong similarities to our own plenary Federal-Provincial Conference, although much smaller in size. There is an equivalent lack of formal organization which often has made for preconceived rather than objective considerations of particular problems. It has also been unsuccessful in achieving an acceptable division of resources between the centre and the states and has never made any serious attempt to tackle the problems of priorities of state and Commonwealth functions. By the very nature of its problems it has been dominated by the Commonwealth Government as the only force from which definite decisions

could flow. The problem in short has been that it too has tried to settle by pragmatic and political means questions which can only respond to solution through careful and objective consideration from a basis of principle.

While the conference has not served as fully the useful purposes that it might, it has contributed to the recognition of issues and in some cases to their resolution. The shortcomings are not those of its form but rather of the manner in which it has been operated in the political context of financial rivalry.

The Australian Loan Council

With respect to public borrowing, three main problems arise in a federation. First, there is that of determining the total amount of funds which can or should be borrowed by the various governments. Secondly, there is the problem of deciding how such funds should be distributed among them and thirdly, the question of what purposes should receive prior access to the funds made available.

In Canada we have been content to let the forces of the market prevail in the first two, largely from choice but perhaps in some part due to our own inability to devise an acceptable method of reaching agreement on the issues involved. The question of the determination

of such priorities has received inadequate attention even within governments not to mention its place as an exercise in intergovernmental co-operation.

As part of the solution to the problem of Commonwealth-state financial relations developed under the Financial Agreement Act of 1927, Australia developed a mechanism for a joint solution to the problem of determining total government borrowing and its allocation among governments. On the third problem of allocation, Australia made an effort following the outbreak of World War II by the appointment of a Co-ordinator-General of Works. This operated during the emergency period but it is no longer a practical influence in the settling of relative government priorities.

The problem of the state debts in relation to the credit of the Commonwealth was a difficult one from the beginning in Australia. The difference in level of debt was difficult to work into concerted plan and there was as well a considerable reluctance on the part of some of the states to surrender their freedom to the central government in the light of their own development ambitions.

Nevertheless the whole question of the assumption of the state debts and the central control of public borrowing continued to receive periodic attention. With the heavy borrowings of World War I, the Commonwealth

Government began in earnest to seek means of achieving a better regulation. A temporary central control for three years following the war was proposed to cover the most serious period of refunding. This was the first serious effort the Commonwealth Government had made to influence the states. In previous periods it had been able to cover its own full requirements without resort to the capital markets.

It was not found possible to reach formal agreement due to the reluctance of New South Wales and Victoria, the most populous and wealthy states, to relinquish any of their financial freedom. As a compromise solution after facing practical difficulties with the London market particularly, the Commonwealth Treasurer proposed at the 1923 Premiers' Conference that the states and the Commonwealth should confer voluntarily with regard to their market intentions. This voluntary loan council consisting of the treasurers of the various governments was to be responsible for advising on, but not controlling, public market activity.

The voluntary loan council met for the first time on February 1, 1924 and continued its activities until the formation of the Australian Loan Council as a statutory body under the Financial Agreement Act of 1927. On the whole it served a useful function although New South Wales failed to co-operate after 1925 largely because it

felt its independent efforts were more rewarding.

In 1926 however, Australia's credit began to come under pressure in the London market due to heavy borrowings and an unsatisfactory sinking fund policy. A number of factors led to strong financial pressures on the Commonwealth Government to link control of public borrowing and the assumption of state debts, with the general question of the financial relations between the Commonwealth and the states. In June 1927, the proposal was made at a Premiers' Conference for the assumption of state debts by the Commonwealth with the Commonwealth Government contributing toward the interest costs to the amount of the per capita payments, the states paying the rest. There were other provisions, including joint sinking fund contributions, but the most important was the proposal for the formalization of the loan council.

Two quite contrary factors worked toward state acceptance of the proposal. The voluntary scheme had shown the value of even limited co-operation. The Commonwealth made it clear that it was insisting on its proposals as part of the re-organization of the financial terms. It was a power play, but in a good cause as the states apparently recognized.

The Australian Loan Council as established under the Financial Agreement Act of 1927 is an unusual supra-

legislative body. It consists of one minister from each state, generally the premier, not the treasurer. It is the practice for the treasurer of the Commonwealth to represent the central government. The Commonwealth representative serves as chairman and has two votes and a casting vote, while each state is limited to one vote. Thus the Commonwealth with the support of two of the six states can control the Council. Meetings of the Council are normally held annually usually in June before the close of the financial year, but three states may request that a meeting be held at any time.

The essential functions are in principle what one would expect;

- 1) the annual amount that is to be borrowed in the next year, and
- 2) the apportionment of this amount among the members.

The determination of the annual amount to be borrowed is a matter for the Council but as the Commonwealth has the effective voice, the greater technical knowledge and the support of the Commonwealth Bank, its judgment is the influential one. In matters of distribution the situation is not quite so clearly defined for it must be on the basis of unanimous decision. Failing this, the Commonwealth is entitled to one-fifth of total borrowings, with each state to that proportion of the remainder that its net loan expenditure in the preceding five years

bears to the net loan expenditures of all states during the same period. Defence borrowings are excluded from Loan Council control.

This formula is rigid and has been criticized on the grounds that it bonuses past extravagance and penalizes thrift but the negotiators at the time were more intent on avoiding endless controversy than they were in developing the ideal answer. J.A. Maxwell in his recent study of the Loan Council has noted: "Despite frequent threats the formula has never been applied. It has stood as a sanction - a shot-gun behind the door, to bring states reluctantly to unanimity."⁸

The Loan Council has been faced with a number of difficulties in the course of its life. Two in particular caused problems before they were satisfactorily dealt with. In the original procedure temporary borrowings were considered to be outside the Council's jurisdiction. It was soon found however that some states were finding it advantageous to finance longer-term obligation in this manner. There were two good reasons for this, the rate of interest was lower and the amount was in addition to that provided under the Council allocation. Eventually it was necessary to

⁸J.A. Maxwell, Commonwealth-State Financial Relations in Australia, Melbourne, 1967, p. 68.

bring such temporary borrowings under Council control. The other problem concerned borrowings by semi-government and local authorities. These are not within the financial agreement and the Loan Council has no longer control over them. However, an informal control was approved by way of a 'gentleman's agreement'. While this is not the ideal solution and leaves the control of the Council open to evasion by any state that wishes to create such special bodies for borrowing which would not be approved by the Council, it is the best that can be arranged and so far has worked reasonably well.

Two other developments which were not part of the original formal plan have served to strengthen the position of the Commonwealth within the Loan Council. The Commonwealth consistently since World War II has had little difficulty in balancing its budget and has been able to meet both its current and its capital requirements from revenue. With borrowings for defence excluded, the demands of the Commonwealth in its share of Loan Council borrowings has been negligible. The result is its position is considerably more objective than it might be under other circumstances. On the other hand, not only has the Commonwealth not been a borrower but it has in fact been a supplier of funds. In years when the assessment of market capacity has been below the programme requirements, the Commonwealth

has met some part of the deficiency by supplying special loans from its own funds on terms and conditions similar to those offered for public loans raised in Australia during the year. Rather than being one borrower of seven, the Commonwealth is now in the position of being one of the principal creditors of the states.

In assessing the value of the Australian Loan Council it is necessary to consider its accomplishments in relation to the three problems of public borrowing control which we outlined earlier.

The problem of estimating the total amount of funds likely to be available is of course linked with the ability of the body to provide more funds at a better rate of interest than would otherwise be available. Related to this is the ability to influence the total amount of funds available for public spending. There does not seem to be any question that through its co-ordination of government borrowing, the Loan Council has been able to make available to the states more funds than would otherwise have been available, at least at equivalent rates of interest.

The influence on total amount of public spending is considerably less clear. One might expect that decisions would be taken in relation to the needs of the economy, expansionary or deflationary, but this does not appear to have been the case. As Maxwell points out, the adminis-

tration of the Loan Council is not organized to make such policy decisions. Its decisions on total spending are related to the appetite of the states and the capacity of the market rather than to any questions of desirable levels of economic activity. However, it may in the process of restraint have added its influence to moderate any perversity that might otherwise have occurred in the state capital programmes. This would apply particularly with respect to the supplementary loans which the Commonwealth provides from its own resources.

Its success in achieving a useful division of funds among the various participants is much more open to question. In practical terms, the Council, which might have grown into an effective experiment in resource allocation, has instead provided a purely mechanical function in its operation as an allocator. The fixed share of loan funds based on past experience cannot be justified on any economic grounds. No competent cost-benefit analysis has been attempted and in fact, the Council has never, as far as we can determine, attempted to equip itself for such a task, unless one accepts the short-lived influence of the Co-ordinator of Works. States are inclined to take their share regardless of need lest their future position be effected when the need is greater. It can be thus argued that the Loan Council may promote a mis-allocation of capital resources and in this respect

it fails in the third criteria of acting in the setting of priorities. If each state had to borrow independently a good deal more careful scrutiny might have to be given than when the share of total funds is determined not on merit but on an automatic process.

There are a number of refinements that could be made in the Loan Council's processes. It would seem that while it has provided funds at a more reasonable cost than would otherwise have been available and has exercised some measure of control in volume, there is no proof that equally effective control might not have been exercised by normal market forces. In fact, by the political necessity of providing funds by special loans where market resources were inadequate, it may have in fact contradicted one of the fundamental advantages of capital fund control.

There would seem to be good reason for such an institution as the Australian Loan Council in times when market conditions require special restraints. In a debtor nation like Australia or Canada, there may be a good case for such influence where external borrowings and problems of the international balance of payments are concerned. But the results will not meet the full potential of such a body until much more developed approaches are taken to the assessment of priorities and the allocation of funds are related to the public

benefit and not merely to past experiences. Whether such an approach is politically possible except in a time of extreme crisis has yet to be answered.

The Commonwealth Grants Commission

All federations face the difficult question in some degree of equalizing the fiscal capacity of their various regional units. The need follows from basic differences in resources and economic capacity, from internal and external influences and sometimes, it is argued, from disabilities which are the direct result of national policies. The problems of dealing with these questions of regional disparities in government income and the resultant level of services is complicated to a very considerable degree by economic and social arrangements and the effect of such action on the total national product. The pressure of the question becomes more intensive with the increase in responsibilities of the regional political divisions. Where these responsibilities are small the problem is of no great significance but where there are larger units and the extent of regional power is important, these adjustments tend to assume considerable stature.

The problem's importance depends too, on the value that the citizens of the whole federation attach to the concept of a measure of equality in public services regardless of the sub-division of the country in which

people live. Much depends on this national attitude. In Australia the idea of regional equality has probably received longer and more widespread acceptance than is the case in either Canada or the United States. Largely perhaps as a result, Australia has been a world leader in its attempts to develop an institution and techniques to meet the situation.

From the beginning, the Commonwealth has used special financial adjustments in its relations with the states. Special provision was made in the constitution for West Australia in the customs tariff. Subsequently special payments were made to West Australia, South Australia and Tasmania.

In the 1920's a good deal of pressure began to be exerted on the Commonwealth to recognize the tariff as an active influence on these regional differences. The Commonwealth resisted any acknowledgment of this approach although its grant, in some respects, had been an acceptance of the alleged facts. It soon became obvious that some better solution had to be found to the adjustment question and finally at the Premiers' Conference of 1932, South Australia proposed a permanent committee to consider the whole question of the fiscal disabilities of the states. This proposal was supported by the Commonwealth Joint Committee on Public Accounts.

As a result of these developments the Commonwealth

Grants Commission was established by federal act in 1933. It is made up of three appointed members one of whom is designated as chairman. The members are appointed on a part-time basis by the Governor-General in Council to whom they report (not to any particular minister) for a term not exceeding three years on any one appointment, although succeeding terms have been quite usual. Members have been selected as a rule from the ranks of ex-political figures, retired public servants or from the pertinent professions of law, accountancy or political economy. As a rule one member has been from a claimant state and while all appointments are made solely by the Commonwealth, as a matter of political courtesy and tactics, the names of nominees are submitted to the Premiers of the claimant states.

It is important to understand the status of the Commission. It is not a supra-governmental body. While throughout the thirty-odd years of its existence it appears to have been entirely free from political influence, its recommendations have no legal force in themselves and are not binding on the Commonwealth. Parliament must accept full responsibility for any grants made as a result of the recommendations.

Very early in its life the Commission discarded the concept of compensation for national policy influence as a measure of assistance entitlement and affirmed that

the basis of its grant recommendations would be fiscal need. It has remained with that general concept ever since.

It has relied on two particular principles:

- 1) that the performance of government functions in a claimant state should reach acceptable standards.
- 2) that the fiscal effort of the government of a claimant state should be at a reasonable level.

The basis of judgment was made relative not absolute and based on the annual examination of the relationship of the budgets of the claimant states to those of the non-claimant states. For a number of years the non-claimant states were New South Wales, Victoria and Queensland while the claimant states were South Australia, West Australia and Tasmania. Since 1959, South Australia has ceased to be a claimant state due to changes in its tax reimbursement position. In 1961, the Commission adopted a two-state standard of New South Wales and Victoria for purposes of determining its grants to the remaining claimant states of West Australia and Tasmania. In 1967, this was again revised to include all four non-claimant states in the developing of grant standards and in the most recent change West Australia has relinquished its claimant status, leaving only Tasmania.

In the technical process of arriving at valid

budgetary comparisons the Commission is forced to make a number of adjustments or modifications to state budgets. The processes which are involved in setting the grants are extremely involved and depend not only on statistical and accounting methods but on evidence taken at formal hearings and throughout the country. Essentially, however, its findings are related to the level of tax severity as an index of a state's relative efforts to look after itself and expenditure standards which are based on selected classes of expenditure, with particular emphasis on the three social services of education; health, hospitals and charities; and public order.

One cannot but be impressed with the idea behind the Commonwealth Grants Commission and the way in which it has carried out its functions over the years. But it is, in fact, only too easy to over-estimate the importance of the Commission in the scheme of Australian intergovernmental fiscal relations. Its relative influence has been consistently lessened over time by the changing federal-state financial structure and with the reduction in the number of claimant states. Since the tax reimbursement grants have been divorced from the derivation principle and have become in fact, merely financial transfer with a number of special factors involved, the importance of the Commonwealth Grant payments has been minimized. In 1964-65, they totalled

but £ A 15.9 million out of a total payment to the states of £ A 494.3 million. Even in Tasmania, the state with relatively the greatest fiscal need, the grants were only £ A 7.3 in a total of £ A 27.9.⁹

Numerous suggestions have been made from time to time for the enhancement of the Commission's role. Even as far back as 1945, Robert Menzies, who was then Leader of the Opposition, proposed that the Commission's functions and staff should be greatly expanded so that it could undertake a review of the needs, resources and financial positions of all the states, not merely the claimant ones. But as sometimes happens ideas developed in opposition have less appeal when power is achieved and when he subsequently became Prime Minister he did nothing to put his proposals into operation.

There were good reasons why he did not. Any action to expand the role of the Commission to the extent he proposed would have altered its fundamental purpose. The Commission's approach to the question of fiscal adjustment has always been a relative one and to have asked it to determine the total allocation of revenues between the Commonwealth and the states would have forced it into judgments on the relative roles of the centre and the

⁹See J.A. Maxwell, Commonwealth-State Financial Relations In Australia, Melbourne, 1967, C.2.

states in the Australian federation. It would have posed the question of the respective functions of the two levels of government and the sources of revenue which would have to be made available to meet the costs. As a federally sponsored body, not only is it unlikely that such powers would have been acceptable to the states, but the responsibility would, in fact, have usurped the legislative power of the central government to a larger degree. The role of this extent would have required a supra-legislative body inconsistent with the basic concepts of parliamentary democracy in Australia.

But to say this is not to say that the role of the Commission could not be usefully expended. For example, Professor Prest, one of the former members has suggested that if the tax reimbursement payments were to be put on a fixed basis such as per capita, the Commission could logically be given the responsibility of determining any specific payments that might be required. These are now largely determined by an ad hoc political process.¹⁰

The reputation of the Commission has been deservedly and consistently high. Its proposals have always been accepted by the central government and generally by the

¹⁰W. Prest, Federalism in Australia, Journal of Commonwealth Political Studies, March 1967, pp. 16.

states with a minimum of debate. It has contributed a great deal to the improvement of state administration through its investigations and recommendations for the standardizations of methods and procedures. An important contribution has been made through the publication of its detailed annual reports. This is important contrast to the activities of the Australian Loan Council whose procedures have been carefully protected from public scrutiny.

It appears however that the Commission's success is in large part, a product of its limited role. If a larger and more penetrating responsibility were to be planned for it, numerous changes in techniques and a greater attention to the development of concepts would have to be provided.

India

There are some basic similarities in the Indian federation to the Canadian in the federal adaptation to parliamentary government in the British tradition in a large and varied country. But there are so many fundamental differences of situation and practice that one may well wonder what applications of Indian experience can be useful to a study of Canadian intergovernmental liaison in fiscal and economic matters.

There are a number of things in the India experiment

which may prove helpful, however, provided that we do not try to apply them too literally and are prepared to consider them not as absolutes but as avenues of approach to a particular class of problems.

The Indian experience is significant not only because of its adaptations of classical federalism but because of the new paths it has taken in applying federalism to an underdeveloped country with a substantial record of developed central authority, which has been subject to strong if varying regional stresses.

Conscious of its history when it came to develop the self-governing federal union, its leaders sought to provide constitutional correctives and extra-constitutional devices in the form of various institutions and diverse organizational forms. Its experience with these, peculiarly its own, poses problems and issues of a nature that are not found in the conventional and developed forms of the federal state. While advanced nations of the federal type have in most respects moved from a laissez-faire to a mixed public-private economy through the path of state control and regulation, India started its life as an independent nation with a mixed economy and a pronounced bias for state activity. The role of government has not been merely that of regulation of the economy but has been concerned with direct stimulus of it by state participation in wide areas of production and distribution.

The growth of federalism in India is to a considerable extent, intertwined with the growth of constitutionalism and the national movement. In 1935 the Government of India Act attempted the decentralization of colonial control prior to the separation of India from Great Britain. In this period and subsequently there were strong demands on the part of the native Indian population for substantial decentralization.

The trend toward decentralized authority which had been part of the British plans for reorganization changed with independence. The impact of partition of India and Pakistan and the merger of the princely states in the Indian federation stimulated an interest in a greater centralization of powers. The growth of Indian nationalism and the personality of outstanding leaders such as Nehru, proved to be dominating factors in the acceptability of this attitude.

Recently, as regional interests have grown and the unifying forces of the independence movement have lessened, the impulse toward a greater degree of state power is to be seen. Perhaps in part this is attributable to a lessening of the unifying control of the Congress Party. In turn the Congress Party likely has suffered from the growth of regional interests.

India relied on the examples of other federations in forming its constitution, on Australia more than Canada

or the United States, although it drew on experiences from all. As written, it envisaged a strong centre with relatively weaker state units with boundaries, not inflexible but subject to change by authority of the Union Parliament.

While the constitution provides for a distribution of powers between the centre and state governments, it relies heavily on a concurrent list of matters on which either level may act. Residuary powers are with the Union and in case of conflict its powers prevail over those of the states.

In addition to its advantages in the powers conferred under the constitution, the central government also exercises power over the states by means of various authorities which override state sovereignty even in areas of constitutional jurisdiction. These include the power of reservation on state legislation by the state governors who are appointed by the Union president and the power to take over state administration in case of the breakdown of state authority.

If we are to understand how such a large degree of centralism was acceptable to the widely diversified regions of India we must consider the principles, influences and conditions under which India was founded as an independent nation.

This centralization of authority was the direct

result of several forces:

- 1) the federation was envisaged as a devolution of powers from the centre to the regions and not as in Canada, Australia and the United States, a coming together of regional entities. The legal theory on which the federal constitution was based was the withdrawal or resumption of all the powers of sovereignty into the people and the distribution of the powers between the Union and the states.
- 2) the tense political situation at the time the constitution was finally developed.
- 3) the influences of socialism toward strong central authority.

The financial relationships between the central government and the states goes back many years before independence. A system of grants and revenue assignments had gradually been developed but no really significant changes were made until the 1930's when plans were under way for the wholesale revisions which were to be incorporated in the Government of India Act of 1935.

In settling the division of taxing authority the constitution-makers consciously went against many established forms in classical federalism. They did in fact take an approach to these problems which is strongly related to the more informal concepts of what we now call 'co-operative federalism'. The mix of tax responsibility is a varied one and calls for four types of taxation sharing and assignment:

- 1) taxes levied by the centre but collected by the states.

- 2) taxes levied and collected by the centre but assigned to the states.
- 3) taxes levied and collected by the centre but distributed between the centre and the states.
- 4) taxes levied and collected by the centre which may at Parliament's discretion be distributed in whole or in part to the states.

These are in addition to usual grants-in-aid for particular purposes.

The responsibility for fiscal and economic policy is clearly with the centre. This is partly based on historical, ideological and party preferences and partly on the sheer necessity in a country where a good deal of equalization between regions is indicated by widely different state economic capacities.

It is often suggested that when the Indian constitution was being framed there was no very clear idea what the implications of a planned economy were for the federal form. There seems no evidence to contradict the idea that planning has done little to adjust the many regional disparities and a widening of the resource-expenditure gap is often to be noted. As in all federations, this gap is the source of frequent conflicts and often competition not only between the states and the centre but between the states themselves. The demands placed on the constitutional provisions of the Union have clearly called for pragmatic as well as

formal vehicles and means of adjustment. India has proceeded to develop these with some ingenuity although not always with success.

The Finance Commission

The principal institution provided in the constitution for fiscal adjustment is the Finance Commission. It is required to be established every five years and reports have been made as follows:

First Commission 1952, Second Commission 1957,
Third Commission 1961, Fourth Commission 1965.
The Fifth Commission has recently been appointed.

While the appointment of the Commission was made a constitutional requirement, details were left to Parliament. These were provided by the Finance Commission (Miscellaneous Provisions) Act, 1951. This act prescribes that there shall be a chairman selected from among persons with experience in public affairs and from other members who should be selected from among those who, a) are or have been qualified to be appointed as judges of a High Court, b) have special knowledge of the finances and accounts of the government, c) have had wide experience in financial matters and administration, or d) have special knowledge of economics. It is customary for one of the appointed members to be or have been an Indian civil servant and in this case he usually serves as the Secretary of the Finance Commission. The

work of the Commission will normally last from twelve to eighteen months. Although in nearly all cases its proposals have been accepted they are not binding on the Government of India.

Under Article 280 of the Constitution the Commission is charged with making recommendations to the President on the following matters:

- a) the distribution between the centre and the states of the net proceeds of taxes which are to be or may be divided between them and the allocation between the states of the respective shares of such proceeds;
- b) the principles which should govern the grants-in-aid of the revenues of the states out of the Consolidated Fund of India, and
- c) any other matters referred to the Commission by the President in the interest of sound finance.

"Thus the primary purpose of the Finance Commission is to assess the financial needs of the states in relation to the total needs of the federation. In this respect its authority extends to both revenue and capital sections, but owing to the variations and uncertainties of capital budgets, the Commission has consistently adopted the policy of dealing only with the revenue part. As the First Commission noted, its work has involved !...not merely the needs of the states but the ability of the centre as well,

to assist the states by the transfer of a larger portion of its revenues'." 11

This matter of the fixing of the budgetary needs of the states is one of the important aspects of the working of the Finance Commission. The principles of approach in settling levels of assistance were laid down by the First Commission on the following matters: 1) budgetary needs, 2) tax effort, 3) economy in expenditure, 4) standards of social service, 5) special obligations and 6) broad purposes of national importance. These principles stand well in theory but have in certain cases been difficult to apply in practice.

Unfortunately it is not possible to analyse the methods employed as unlike the Australian Commonwealth Grants Commission, the Finance Commission does not provide extensive documentation of its procedures although its reports are usually very full and instructive in other respects. The general process seems to be for a state government to furnish a quinquennial forecast of its position on the revenue section of its budgets. The Finance Commission reviews the forecast and on the basis of its analysis in relation to its own information arrives at an independent understanding of the budgetary requirements of the state. The final end of the exercise is thus for the Commission to arrive at the finan-

¹¹Report of the First Commission, 1952, para. 23.

cial need of each state in the areas of normal government expenditure and outside the special influence of the economic development plan. Grants-in-aid are usually residual in character and are used to fill the gap after adjustments of the tax fields.

While in some respects the work of the Commission parallels that of the Commonwealth Grants Commission, its activity has a much broader scope, somewhat akin to the extension of activity which Menzies at one time visualized in Australia. For in making its determinations, the Finance Commission is concerned not just with the interests of some of the states but with the centre's own requirements as well, for a greater share of total resources to the states obviously means an equivalent reduction in the centre's share. The commission's biggest problem is probably in trying to arrive at some balance in this respect. Problems of derivation, sharing and equalization enter into its calculations on grants, both general and conditional. The various Finance Commissions have been involved in a number of technical and even political controversies in the course of their work.

The activities of the Commission may be extended over a wide area at the request of the central government as was the case when the Second Commission was asked to make recommendations on loans to the states. Its task

is a difficult one full of unreconcilable complexities and not made easier by its non-continuous nature with a new commission every five years, and the lack of its own technical staff.

While we have noted that its scope is much wider than that of the Commonwealth Grants Commission, in practice its activities have in some respects been more restricted. For one thing, it has not found it practicable to assess the factor of tax effort on the part of individual states. This is not a matter of lack of will but is due to the fact that the comprehensive data necessary for such work are almost invariably lacking. The whole operation as a result of this lack, tends to be in a sense a mechanical one based on general rules and without the basic philosophy of equalization which is the foundation of the Australian approach. As a result the work of the four commissions to date has not accomplished the degree of levelling of regional disparities that is really a basic justification for their existence.

Some observers regard the failure to achieve its objectives as being a direct result of the lack of any consistent philosophy of federalism. The various commissions appear to have had no consistent approach to methodology and in some cases have allowed fiscal need to dominate their findings, in others devolution. Nor

does there seem to have been any success in establishing a proper relationship with the work of the Planning Commission as it relates to the responsibility of the centre for the economic development of the nation.

But despite its apparent short-comings in meeting the very substantial tasks set for it, the quasi-judicial approaches of the Commission have generally brought a good deal of harmony and some reason into a very tangled web of union-state relations. On the basis of the apparent growth in state power in various parts of the country, it may have a greater role to fill in the future. But it is only likely to be able to do this if it can develop a workable and acceptable federal philosophy, reach an understanding of its proper relationship to the Planning Commission and, by means of more continuous life and better technical resources, provide a more objective and effective answer to the problems of state-federal finance in India.

The Planning Commission

Economic planning has been an important factor in Indian politics and in the path of its development ever since the country achieved independence in 1947. Historically, there is evidence of some considerable interest throughout the latter part of the period of British rule. The platform of the Congress Party in 1931 recognized

the importance of planning to India's future. With the somewhat greater scope for provincial activity that came with the 1935 constitution, some activity of this kind could be found, although influence at the national level was small.

In 1938 a conference of provincial ministers established the National Planning Committee with wide public-private membership under the leadership of Mr. Nehru. In this the Government of India took no part, but in the war years there was a gradually increasing awareness on its part of the importance of some positive action. In 1943, a Reconstruction Committee of the Cabinet was formed under the Governor-General. A separate department of planning and development was constituted in 1944.

The interim government of 1946 recognized the growing importance of planning in India for its coming independent future and proposed a full-time Planning Commission with adequate bureaucratic support. Economic necessity made planning a generally accepted concept and it did not become a matter of political controversy. Independence and partition served to re-emphasize many old problems and created many new ones as well. These, many informed people believed could only be solved by planned activity under the control of the national government. It was recognized that the new re-distribution of existing wealth accomplished little or nothing and that

the effective co-ordination of private enterprise and state activity would be a necessary part of any sound economic progress.

It is somewhat anomalous that with the established recognition of the importance of the planning function, no provision was made in the Constitution for any planning organization. Perhaps the difficulties of ad hoc activity were not fully appreciated. Alternatively it may be that the conditions of the time were deemed to demand a degree of flexibility not always consistent with constitutional provisions.

However, very shortly after the constitution was ratified, the Planning Commission was established by cabinet resolution under the following terms of reference:

- 1) to make an assessment of the material, capital and human resource of the country, including technical personnel, and investigate the possibilities of augmenting such of these resources as are found to be deficient in relation to the nation's requirements;
- 2) to formulate a plan for the most effective and balanced utilization of the country's resources;
- 3) on a determination of priorities to define the stages in which the plan should be carried out and propose the allocation of resources for the due completion of each stage;
- 4) to indicate the factors which are tending to retard economic development and determine the conditions which, in view of the

current social and political situation, should be established for the successful execution of the plan;

- 5) to determine the nature of the machinery which will be necessary for securing the successful implementation of each stage of the plan in all its aspects;
- 6) to appraise from time to time the progress achieved in the execution of each stage of the plan and to recommend the adjustment of policy and measure that such appraisal might show to be necessary; and
- 7) to make such interim or ancillary recommendations as might be appropriate on a consideration of the prevailing economic conditions, current policies, measures and development programmes, or on an examination of such specific problems as may be referred to it for advice by central or state governments for facilitating the discharge of duties assigned to it.

The flexible approach was continued in the formation of the Planning Commission. Neither the size of the body nor the qualifications of the members were prescribed, quite unlike the procedure in the case of the Finance Commission. Subsequent steps which in effect converted the Commission into a quasi-political body, may explain the reluctance to formalize.

The Commission, as originally appointed, consisted of five members with the Prime Minister as chairman. The deputy chairman was responsible for the co-ordination of its activities. The concept of the Commission in relation to the responsibilities of government departments had not been clearly defined and very shortly after its

foundation conflicts as to responsibilities led to the resignation of the Minister of Finance. The answer of the Prime Minister was to appoint one of the commissioners as minister of finance and shortly after, the deputy chairman was made minister of irrigation and power and minister of planning. These steps set the pattern of close government control which has been characteristic of the place of the Planning Commission in the scheme of government. This has been the basis of much of its power. It is apparent that the leaders of the Union Government placed great emphasis on the authority of the government and were not disposed to see them dissipated to an outside body which they might not be able to control.

The form and membership of the Commission varied with the time but it now has fourteen members, seven of whom are ministers, one, the Prime Minister, being chairman. There are seven full-time members who have no government responsibilities and on whom the administrative responsibility falls, under the direction of the deputy chairman.

As the Commission has developed so has its internal organization and complaints have been heard of the creation of a new and expensive bureaucracy. The former Prime Minister, Mr. Nehru was quoted as saying, "the Commission which was a small body of serious thinkers

has turned into a government department complete with a crowd of secretaries, directors, and of course a big building."¹²

Six divisions have been formed each under the direction of a full-time member. These are in the areas of natural resources, agriculture, and co-operation; industrial and mineral; social services, education, health and scientific research; transport, communication and administration; social welfare, labour and employment; and international trade.

The Commission has established two important subsidiary organizations: 1) the Research Programme Committee under which sponsors research in problems of social and economic growth, and 2) the Programme Evaluation Organization which evaluates or arranges for the evaluation of work under the community development programme. It is also associated with the National Development Council in the Committee on Plan Projects which analyses work done on projects in the interests of economy and efficiency.

While the Planning Commission can only recommend and as an institution has no executive power, it has through its close and interlocking association with the Union

¹²Quoted in Asok Chanda, Federalism in India, London, 1965, p. 294.

Government exercised a great deal of actual influence. Much of this has been in areas of the constitutional authority of the states. While the Commission has made efforts to consult and to have action taken through the state organization in putting proposals into effect, nevertheless it has had a strong centralizing effect on the federation.

Many informed people in India have considered this a natural result of the planning function and the India Prime Minister at one stage was reported to have said that:

"Planning is 100% centralization and nothing else. The centralized authority responsible for planning might be big and there might be joint planning by all states for the whole of India. But decisions by such an authority should be taken in an overall way and given effect to jointly. The Central Government and the State Government should be looked on as part of the same living organism which had a duty to look after the country as a whole."

He added that the authoritarian approach might yield certain results which a democratic approach did not. Thus we see the justification given the overwhelming need and importance of total national development, sometimes at the expense of local autonomy.

The real problem of the Planning Commission as it is set up, is in the confusion of its interests and responsibilities with those of the central government. Objectivity is often difficult to achieve under the

circumstances. The Commission itself would likely argue that it is an independent advisory body which attempts to view problems as a whole and in the context of the whole federal structure. Be that as it may, it is evident that the Commission's role is complicated and in some ways seriously distorted by its present form. Its close and often indistinguishable central governmental relationship has led to misunderstanding with respect to its relationship, not only with states but with the independent Finance Commissions as well.

Perhaps in a country such as India with its great diversities and difficulties this is an inescapable necessity. How much its continuing central role is attributable to this and how much to the all-pervading presence of the Congress Party is hard to say. As this presence weakens, as it now shows signs of doing, we may see some evidence of the extent of the intrinsic strength of the Planning Commission in its present form.

The National Development Council

The predominant influence of the Union Government on the planning process has been modified in some part by the creation in 1952 of the National Development Council. It consists of the chief ministers of the states, the Prime Minister, the members of the Planning Commission and the central cabinet. Its objects are:

- a) to strengthen and mobilize the effort and resources of the nation in support of the plan;
- b) to promote common economic policies in all initial spheres;
- c) to ensure balanced and rapid development in all parts of the country.

Essentially its functions are:

- 1) to review the working of the national plan from time to time,
- 2) to consider important questions of social and economic policy affecting national development, and
- 3) to recommend measures for the achievement of the aims and targets set out in the national plan.

On paper the Council has an important role to play in the economic and social development of India. It could under the proper circumstances be the vital factor in co-ordinating central and state activity. There is a wide divergence of views as to its actual place in the scheme of things, however, from the concept of it as a federated "super-cabinet", to one of it as an ineffective forum for the exposition of regional demand, without influence or authority.

As usual the truth probably falls somewhere between the two extremes. The Council has the positive qualities of providing a high level opportunity for Union-state discussion which should lead to better co-operation. It does, more than any other vehicle, provide the means for common understanding and identification of the areas of

interdependence which can go a long way toward the meeting of the many diverse requirements and interests that now exist.

But in fact it seems to have been too much a prisoner of the political situation of the times to have adjusted its actions in response to the need. In this respect the recent loss of some political power by the Congress Party may provide some release. By failing to have specific tasks the Council, like so many organizations of the kind, loses itself in the maze of loose generalities. Having no functional responsibility it lacks the ability to come to firm answers and can seldom provide even a consensus of its own.

If the National Development Council is to have a really effective role in the future, as it may if the political control of the centre continues to weaken, it would seem necessary that it be converted to a body of working responsibility. In that there is the ever-present danger of the overriding of legislative responsibility and the federal process. But this may be a risk that India will have to take under the special demands of its very difficult future.

The Zonal Councils

India has had more than its share of regional problems, not surprising in a land of religious, lin-

guistic and economic diversities. Although Article 263 of the Constitution provides for inter-state councils only very limited use has ever been made of this devise. The demands for state reorganization became very strong in the early 1950's and the Government of India appointed the State Reorganization Commission to examine the whole question of state boundaries. In 1955 a number of important recommendations were made. As a result of these developments the Prime Minister proposed the organization of five Zonal Councils, representing states of like economic and cultural interests. These have in effect supplanted the idea of inter-state councils.

The Zonal Councils were made up of a Union minister nominated by the President, the chief minister from each state in the zone and two other state representatives nominated by the governor of each state concerned. The inclusion of a Union minister was considered necessary to provide the cohesion which is often supplied by a representative of the larger national interest. Provision was made for an advisory group consisting of a nominee of the Planning Commission and the chief secretaries of the government of each state and other officials.

The main purpose of the Zonal Councils is to promote co-operation and the co-ordination of state activities. Particularly, they are charged with making recommendations on any matters of common interest in the

field of economic and social planning and any matter concerning border disputes, linguistic minorities and inter-state transport.

The Councils meet infrequently for short sessions and most of the work is done through committees. On the whole, while they have not made any great steps toward their objectives, they have provided at least an opportunity for adjustment of some of the difficult regional problems that continue to exist. They have not developed a common outlook nor a solid front with which to approach the Union Government. It may not be in the interests of India that they should. In a country like India with wide diversities, the concept of zonal councils may have a great deal more to offer than in more homogeneous nations, provided they retain their identity and do not develop delusions of a greater purpose.

With the great degree of state dependence on the central government, there are, of course, a variety of contacts and a considerable interlocking of administrative processes whereby the states act for the centre and vice versa. The existence of a national civil service in certain fields of operation where members are under joint control and are seconded to the states is perhaps a unique feature of the Indian system, and inheritance from the old British rule.

It is extremely difficult to make a judgment on the

Indian system of policy co-ordinating institutions or to relate it to the needs of more developed federations. So far a great deal has depended on a preponderance of central control, which in turn has depended on a preponderance of political power both centrally and in the states of one group, the Congress Party. As the influence of the states grows as it now shows signs of doing, we may be able to develop a somewhat better idea of the effectiveness of the machinery that has been developed. There has so far been evident a desire for and a willingness to seek a consensus through necessary compromise. It would appear that only through a continuation of these attitudes can there be hope of effective survival of the Indian federation.

Other Federations

We mentioned earlier our intention to concentrate on these three federations which seemed to be most pertinent to Canadian interests, the United States, India and Australia. However a brief reference to the situation in some of the new Commonwealth federations may be of some value.

In the field of co-operative fiscal and economic institutions, these federations have been heavily influenced by the Australian precedents of the Grants Commission and the Loan Council and by Indian experience.

Most of the newer federal constitutions have included provisions for commissions or councils to undertake fiscal adjustment at periodic intervals and to co-ordinate public borrowing. Sometimes as in the case of the finance and fiscal commissions in Nigeria, Rhodesia and Nyasaland, and Malaysia, these have taken the form of independent expert advisory commissions, and where this has been the pattern their success has rested upon establishing a reputation for impartiality. In other examples, noticeably the finance councils specified in the constitution of Pakistan and Malaysia and the loan councils of Rhodesia and Nyasaland, and Nigeria, these have taken the form of bodies composed of representatives from the central and regional governments, providing regular occasions when inter-governmental bargains and compromises might be negotiated. The degree to which these institutions have provided flexibility both in balancing the revenues and expenditures of the respective levels of government and in distributing financial resources among different regions can be seen by the frequency with which fiscal reviews have been carried out.

All the new Commonwealth federations, except the defunct West Indies Federation, have followed and attempted to improve upon the Australian model in the allocation of financial power and resources and in the

machinery for harmonizing the fiscal operations of the two levels of government. The arrangements in West Germany and Switzerland however, are very different. Some of the methods employed have interesting examples which we could profitably consider but they do not fall within the limits of our terms of reference being more fundamentally different in nature. Similarly, while some of the vehicles and methods employed in the European Economic Community are worthy of study, they relate primarily to different problems of economic integration than can be dealt with within the scope of this report.

Inventory of Intergovernmental Machinery - 1967

Area of Government Activity	Organisation, Committee or Conference	Level	Type	Membership	Periodicity	Description of Main Role
A. General Government	I. Central Government Activity	Prime Ministerial	Federal-Provincial	Canada, all provinces	As required - has been at least annual in recent years	To consult concerning major policy items pertaining to both levels of government, such as the constitution (repatriation), revenue sharing, areas of mutual activity (off-shore mineral rights, medicare), etc. Negotiation and agreement (subject to approval by legislative bodies) are involved.
			Interprovincial	All provinces	Annual	To discuss major policy items of concern to the governments. Each province takes turns sponsoring this.
B. Financial and Economic Matters	Premiers Conference	Prime Ministerial	Interprovincial	Alta., Sask., Man., N.B.	Annual	The three prairie premiers meet annually to discuss matters of regional interest. Each province takes its turn hosting the meeting.
	Prairie Economic Council	Prime Ministerial	Interprovincial, regional		Annual	The four Atlantic premiers meet, rather informally, to discuss matters of regional interest.
	Atlantic Premiers	Prime Ministerial	Interprovincial, regional	Nfld., P.E.I., N.S., N.B.	Annual	To exchange views on the economic and financial situation and the various provinces, prior to budget consultations with the federal government, harmonisation of policies of federal and provincial governments.
	Ministers of Finance	Ministerial	Federal-Provincial	Canada, all provinces	Annual	To exchange views on the economic and financial situation and the various provinces, prior to budget consultations with the federal government, harmonisation of policies of federal and provincial governments.
	Tax Structure Committee	Ministerial	Federal-Provincial	Canada, all provinces	As required	A temporary task force (to last a few years) with the task of studying the allocation of revenues between federal and provincial governments in relation to evolving responsibilities, and related subjects.
	The Continuing Committee on Fiscal and Economic Matters	Deputy Ministerial	Federal-Provincial	Canada, all provinces	As required - at least twice yearly	To exchange views and information on fiscal and economic matters, and to study matters referred to it by the Treasury Conference, the Ministers of Finance and T.S.C.
	Conference of Federal and Provincial Economic Councils or Advisory Boards	Council heads	Federal-Provincial	Canada, all provinces	ad hoc	A conference was held in 1965, sponsored by the Economic Council of Canada, to establish liaison, consider regional development research, etc., with provincial economic groups (a wide variety). There has been thought to having such conferences on a recurring basis, but this is not yet decided.
	Committee on Financial Institutions and Securities Regulation	Ministerial	Federal-Provincial-temporary task force	Canada, all provinces	As required	To define roles and seek co-ordination between governments in this area.
	Committee on Financial Institutions and Securities Regulation	Deputy Ministerial	" "	" "	"	To co-ordinate studies and bring together information from interested subjects of concern, and recommend appropriate steps to assist the ministerial committees to fulfill its task.
	Committee on Trust Companies	Official	Sub-committee to the above	" "	"	To study various aspects concerning trust company legislations.
C. Financial Institutions Regulation	Committee on Consumer Credit and Interest Disclosure	Official	" "	" "	"	To study and report.
	The Canadian Committee on Mutual Funds and Investment Contracts	Official	Federal-Provincial-temporary task force, jointly sponsored by all governments, ministerial staff	Canada, some provinces	"	To study this area and make recommendations as to legislation. This is a formally organized body with a high degree of independence in its reporting to it. Expenses are shared by federal and provincial governments.
	Meeting of Securities Commissioners	Official	Interprovincial, with federal observers	All provinces	As required	Exchange of information, co-ordination of activities.

Area of Government Activity

II Agriculture - Rural Development

A Agriculture

Organization, Committee of Conference	Level	Type	Membership	Periodicity	Description of Main Role
Ministers of Agriculture	Ministerial	Federal-Provincial	Canada, all provinces	Annual	Exchange of views on agricultural policy matters, definition of federal and provincial roles.
Ministers and Deputies of Agriculture	Ministerial	Interprovincial (federal observers, including Ministers, for part)	All provinces	Annual	Provinces take turns hosting this conference. For an exchange of views on provincial matters - may result in a common approach to the federal government.
Agricultural Outlook Conference	Deputy Ministerial	Federal-Provincial	Canada, all provinces, - Outside observers, press etc.	Annual	To discuss the economic outlook for the agricultural sector, and agree on a published short term outlook.
Canadian Agricultural Science Co-ordinating Committee	Deputy Ministerial	Federal-Provincial	Canada, all provinces-Academics	Annual	To discuss, stimulate and co-ordinate research activities related to agriculture; also regulatory and administrative matters.
Deputy Ministers sub-committee to C.A.S.C.C.	Deputy Ministerial	Federal-Provincial	Canada, all provinces	Annual	Policy, administrative and regulatory discussions (The Deputies also sometimes meet as a group on an ad hoc basis, apart from C.A.S.C.C.).
Research sub-committee to C.A.S.C.C.	Official	Federal-Provincial	Canada, some provinces academics	Annual	Research co-ordination under C.A.S.C.C.
Provincial Agricultural Co-ordinating Committee - C.A.S.C.C. (in part)	Official	In part, provincial advisory bodies - in part, federal-provincial committees	Provincial and Federal officers, and academics. Atlantic Provinces, 1 in each of other provinces	Annual or more often	In part, these are considered to be sub-committees of C.A.S.C.C. - Research Section - to report to that body on local developments. However, some provinces seem to have their own advisory committees and provincial ministers, for co-ordinating provincial activities.
National Committee on Agricultural Engineering Research on Agronomy Agronomy National Committee on Pesticide Use	Official	Federal-Provincial-Sub-committees to C.A.S.C.C.	Canada, most provinces	Annual	To study specific problem areas, promote research in specialised fields, and report back to C.A.S.C.C.
Technical Committees on: Animal Nutrition Manure Soil Grain Research Plant Breeding Plant Diseases Poultry Breeding Pests and Diseases Potato Breeding Scientific Information	Official	Federal-Provincial or federal advisory	Canada, most provinces	Mainly Annual	These committees all have a specific area of enquiry of a technical nature. While they are of a federal-provincial make-up, they are described as reporting to the Federal Board of Agriculture and Fisheries. Their classification as "advisory" from C.A.S.C.C. Their classification is therefore somewhat dubious.
Meeting of Veterinary Representatives	Official	Federal-Provincial	Canada, all provinces	Annual	Directors of veterinary services meet to discuss policies and programmes in this field.
Meeting of Animal Pathologists	Official	Federal-Provincial	Canada, all provinces	Annual	Technical exchange, search for uniform testing procedures, etc.
Meeting of Ministers	Ministerial	Federal-Provincial	Canada, all provinces	Ad hoc	A meeting of Ministers concerned with A.R.D.A. took place in 1964, to discuss the new agreement. They may meet again, particularly when agreements are up for renewal.
The Canadian Council of Rural Development	Non-gov't.	Federal advisory council	Non-government membership, with representation from all parts of the country	Annual	Not really an instrument for federal-provincial consultation, although the membership provides for expression of provincial points of view. The Executive Director is a federal civil servant.

Area of Government Activity	Organisation, Committee or Conference	Level	Type	Membership	Periodicity	Description of Main Role
B Rural Development (cont'd.)	Joint Advisory Committee Joint Development	Official-Deputy	Federal-Provincial - Regional	All Provinces except Ont., and B.C., have one in 1967.	As required	These committees are made up of 3 provincial and 2 federal civil servants, and exist to discuss programme proposals before they go to higher authority.
	Regional Development Conferences	Official and others	Federal-Provincial Regional	Canada and appropriate provinces, others	Ad hoc	Occasional conferences are called for an academic type of discussion on regional problems, including delegates from government, academic world, interested organisations.
	Federal-Provincial Advisory Boards for F.R.E.D. projects	Official	Federal-Provincial Regional	Canada and provinces concerned. So far, N.B. and Man.	As required	An advisory board for each major project under the Fund for Rural Economic Development.
	Ministers of Education	Ministerial	Interprovincial	All Provinces	At least annually	In June of 1967, the Ministers of Education constituted themselves as a permanent council for consultation, to be equipped with a secretariat of about 35 staff, for the purpose of research into educational matters and development joint approaches to the federal government.
III Education - Manpower - Labour	Canadian Education Association	Non-Government	Independent Association	Provincial and some federal institutions, educators, trustees, etc.	Annually	Formal discussions of educational matters. In the past, there was considerable consultation of an intergovernmental nature, particularly in the "Standing Committee of Education Ministers". With the formation of the new council, however, (above), this role is probably finished.
	Officials Meetings on post-secondary education	Official	Federal-Provincial	Canada, All Provinces	Ad hoc	There have been a few meetings to consult on problems associated with the new federal approach to education announced in October 1966. Provincial Education Officials meet with federal Secretary of State Officers. There is some thought that a continuing consultative body may be established.
	Committee on the Student Loan Plan	Official	Federal-Provincial	Canada, All Provinces	As required	To consult on details concerning this plan.
	Officials meetings on adult training	Deputy Ministers and/or Officials	Federal-Provincial	Canada, All Provinces	Ad hoc	To consult on problems associated with the new federal approach to adult training. A continuing consultative body (perhaps the deputy ministers) will be established.
B Manpower	National Advisory Council on Manpower and Immigration (not yet formed)	Non-Government	Federal Advisory Council	Non-civil servants, some regional representatives	Annual	It has been proposed to establish such a council to advise the Federal Minister, which would not have civil servants, although regional representation would be provided for. This council would be made up of advisory bodies which have been dissolved with the formation of the new department. (It would have four advisory boards reporting through it).
	Technical and Vocational Training Council	Part official, Part non-government	Federal Advisory Council	Regional and Institutional representation	Annual	These bodies have been disbanded, perhaps to be replaced by one advisory committee (see above). While the Technical and Vocational Training Council would not give them quite a federal-provincial role - provision for exchange of views and information, co-ordination, etc.
	National Employment Committee (all now disbanded)	National Employment Committee				
	Directors of Vocational Training Committee of Apprenticeship Committee on Technical and Vocational Correspondence Courses	Official	Federal-Provincial	Canada, All Provinces	About twice annually	These bodies were considered to be sub-committees of the Technical and Vocational Training Council, although they were federal-provincial groups in every sense and achieved co-ordination, uniformity of standards, exams, etc. Their future is uncertain (in mid 1967). They may disband, under the new system, or continue as inter-provincial bodies, or be reconstituted in some form.

<u>Area of Government Activity</u>	<u>Organization, Committee or Conference</u>	<u>Level</u>	<u>Type</u>	<u>Membership</u>	<u>Periodicity</u>	<u>Description of Main Role</u>
A Education (cont'd.)	Regional offices and committees	Official	Federal-Provincial (regional)	Regional committees to be formed involving all Provinces and Canada	As required	The Department of Manpower has established 5 regional offices. It is planned to establish regional (or provincial) federal-provincial committees to discuss applications for manpower development grants to be published. (The regional committee will monthly have sub-committees on training in industry).
	Pilot training project corporations	Semi-Ministerial	Quasi-Independent Corporations	Corporation formed by federal government and one province together. One could be formed in each province	As required	The Board of Directors will be appointed by the federal government and the provinces concerned, together, and a minister from each will be on the board.
	National Agriculture Manpower Committee	Deputy or Official	Federal-Provincial	Canada, All Provinces	As required	To consider farm labour matters, encourage research etc. Grew out of former farm-labour conference.
	Municipal Winter Works Conferences	Official	Federal-Provincial	Canada, All Provinces	Ad hoc	To discuss the programme, seek to improve its effectiveness, etc. Three such meetings so far.
	Minister of Labour	Ministerial	Federal-Provincial	Canada, All Provinces	Ad hoc	The Ministers have met (in 1964, to discuss the new Labour code) but have not been constituted as a continuing body for consultation.
C Labour	Deputy Ministers of Labour	Deputy Ministerial	Federal-Provincial	Canada, All Provinces	Ad hoc	While they have not been constituted as a continuing consultative body, the deputies have met 3 times in the past year, to consider such items as management-labour committees in industry and a new safety code.
	Canadian Association of Administrators of Labour Legislation (CAALL)	Deputies, Officials	Quasi independent association	Canada, All Provinces	Annual	This body, constituted as an organization, has met for many years. Papers are given, views exchanged, etc. which probably leads to more uniformity in labour legislation across the country. A federal civil servant has the role of permanent secretary to this body. There is some uncertainty concerning its role in view of the recent federal reorganization.
	Research and Statistics Sub-Committee to CAALL	Officials	Quasi independent association - sub-committee	Canada, All Provinces	Annual	Coordination of research efforts in labour statistics.
	Resource Ministers Council	Ministerial	Quasi independent association	Canada, All Provinces	Twice annually	To promote research and advise governments on policy for development of Canada's resources. This is a unique body, formally constituted as an organization with its own letters patent and its own staff. One representative from each province and the Federal Government are regarded as equal members. The Council has sponsored research and conferences (including the recent Pollution Conference). It has under it a Coordinating Committee of Officials.
	Mines Ministers Conference	Ministerial, plus Officials and American representatives	Interprovincial	All Provinces, industry, federal observers	Annual	This conference has continued for many years, each province taking turns as host. Six continuing sub-committees of officials and industry representatives carry out background work. Federal observers are frequently quite active, so that this consultation assumes a federal-provincial aspect at times. Agreement on matters of mutual interest has been reached and jointly in regulations encouraged. Briefs go to the federal government recommending steps it should take.
C Water - Energy	Canadian Advisory Committee on Coal Research	Official	Federal-Provincial (regional)	Canada, Nova Scotia Alberta	Annual	To make recommendations to the participating governments on appropriate research.
	Meeting of Administrators of Water Resources	Official	Interprovincial	All Provinces	Ad hoc	This group met for the first time in 1967 primarily to discuss the proposed new Canada Water Act. There is some thought that it may become a continuing consultative body.

Area of Government Activity	Organization, Committee or Conference	Level	Type	Membership	Periodicity	Description of Main Role
C Water - Energy (Cont'd.)	Prairie Provinces Water Board	Official	Federal-Provincial Regional	Canada - 3 Prairie Prov.	As required	Various regional bodies consulting on the handling of regional water bodies.
	South Saskatchewan River Development Board	"	"	Canada - Sask.	"	
	Nelson River Board	"	"	Canada - Manitoba	"	
	Red River Flooding Advisory Board	"	"	Canada - Manitoba	"	
	Assiniboine River Advisory Board	"	"	Canada - Manitoba	"	
	Lake of the Woods Control Board	"	"	Canada-Ontario-Manitoba	"	
	Coordinating Committee on Northern Ontario Water Resources	"	"	Canada - Ontario	"	
	Atlantic Tidal Power Projects Board	"	"	Canada-Atlantic Provinces	"	
	Canada-S.C. Mission Commission	"	"	Canada-N.E.-N.S.	"	
	Columbia River Forest Conservation Board	Ministerial	"	Canada - B.C.	Annual	
	Western Rockies Forest Conservation Board	"	"	"	"	
	steering committees on Water Shed Research	Official	"	Canada - Alberta	As required	
	Canadian National Committee for International Hydrologic Decade	Official, Academic	Federal-Provincial	Canada, All Provinces except P.E.I., some universities	Annual	
	Committee on Long Distance Transmission	Official	Federal-Provincial	Canada, All Provinces except Quebec	As required	
	Ministers of Forestry	Ministerial	Federal-Provincial	Canada, All Provinces	Ad hoc	
	Deputy Ministers and Chief Foresters	Deputies Officials	Interprovincial	All Provinces, federal observers	Annual	
	National Committee on Forest Lands	Official	Federal advisory council	Canada, All Provinces, outside agencies	Annual	
	Associate Committee on Forest Fire Protection	Official, Outside	Federal-Provincial	Canada, All Provinces except P.E.I., outside agencies	Annual	
	National Research Council Associate Committee on Forest Research	Official, Outside	Federal-Provincial	Canada, All Provinces except P.E.I., outside agencies	Annual	
	Regional Advisory Councils	Official, Outside	Federal advisory council on a regional basis	Councils have been formed with all provinces except Quebec. (Que., Ont., N.B. and P.E.I. have no forestry and industry representative)	At least annually	
D Forestry	Green River Work Committee	Official	Federal-Provincial regional	Canada - N.B.	Twice yearly	In some respects the body is an advisory council to the N.R.C., recommending research projects to that body. It is also a vehicle for exchange of information. To advise the regional director on research matters and coordinate research efforts. Technical discussions on regional projects.
	Western Forest Insect Work Conference	Official	Federal-Provincial regional	Canada, B.C. Alberta	Annual	
	Eastern Rockies Forest Conservation Board	Official	Federal-Provincial regional	Canada, Alta.	As required	

Area of Government Activity		Level	Type	Membership	Periodicity	Description of Main Role
<u>Energy and Resources (cont'd.)</u>						
<u>E Fisheries</u>						
P Other	Minister of Fisheries	Ministerial	Federal-Provincial	Canada, All Provinces	Ad hoc	The Ministers have met, but not as a continuing body for consultation.
	Atlantic Fisheries Committee	Deputies, Officials	Federal-Provincial Regional	Canada, Quebec, Atlantic Provinces	Annual	To consult on matters of common interest, coordinate the work of the various committees. The body has met for about 10 years, is subdivided into specialised sections and has an elaborate programme.
	Prairie Provinces Fisheries Committee	Deputies, Officials	Federal-Provincial Regional	Canada, Man., Sask., Alta.	Annual	These three bodies were formed more recently, to serve purposes similar to the Atlantic Groups.
	E.C. Fisheries Committee	"	"	Canada, E.C.		
	Ontario Fisheries Committee	"	"	Canada, Ontario		
	Conference on Wildlife	Official	Federal-Provincial	Canada, All Provinces	Annual	Mainly an exchange of information
	Parks Conference	Deputy Ministerial	Federal-Provincial	Canada, All Provinces	Annual	Mainly an exchange of information with no policy discussion.
	Conference on Canadian Historical Resources	Official	Federal-Provincial	Canada, All Provinces	Annual	Informational
	Manitoba Fur Advisory Comm.	Official	Federal-Provincial Regional	Canada, Manitoba	As required	These three committees exist for recommending projects in accordance with available funds - orientation toward use of resource by people of Indian ancestry.
	Ont. Resources Advisory Comm.	"	"	Canada, Ontario	"	"
V Health and Welfare	Sask. Resources Advisory Comm.	"	"	Canada, Sask.	"	"
	Committee on Caribou Preservation	Official	Federal-Provincial Regional	Canada, Ont., Que., Prairies	Annual	Special purpose.
	Ministers of Health	Ministerial	Federal-Provincial	Canada, All Provinces	Ad hoc	The Ministers have not been constituted as a continuing body for consultation, although they have met each year since 1964, presumably because of a number of major health problems that have appeared. The Ministers should be formally constituted a consultative body served by a sub-committee of officials.
	Ministers of Health	Ministerial	Interprovincial	All Provinces	Ad hoc	The provincial ministers have met twice and will be meeting this fall in Victoria to formulate general proposals. These will be presented to the federal government as well as to discuss matters of purely provincial interest. This may become a continuing vehicle for consultation.
	Dominion Council of Health	Deputy Ministerial	Federal Advisory Council	Canada, All Provinces, some outside groups	Usually twice annually	While this body ostensibly makes recommendations to the provincial governments, provincial consultation on the whole field of health. Many technical sub-committees report to the Council. It was formed in 1919.
	Advisory Committee on Hospital Services	Deputy Ministerial or Official	Federal Advisory Council	Canada, All Provinces	Usually twice annually	Technically an advisory body to the federal ministers, this committee recommends views on and facilitates coordination of hospital insurance programme.
	Sub-committees on: Research and Statistics Finance and Accounting Residence and Uniformity of Benefits					
	Advisory Committee on the Health Resources Fund	Deputy Minister or Official	Federal Advisory Council	Canada, All Provinces	At least annually	To discuss and advise concerning this programme (includes consideration of provincial plans for health training facilities).

<u>Area of Government Activity</u>	<u>Organization, Committee or Conference</u>	<u>Level</u>	<u>Type</u>	<u>Membership</u>	<u>Periodicity</u>	<u>Description of Main Role</u>
V Health and Welfare (cont'd.) A Health	Technical Conference on Medical Care	Deputies and Officials	Federal-Provincial	Canada, All Provinces	Ad hoc	To discuss problems of implementation of the proposed medical plan. It seems likely that a continuing body for consultation will be formed once medicare is underway.
	Technical Advisory Committee reporting through the Dominion Council of Health:	Official	Federal-advocory sub-committee	Canada and, in most cases, all provinces	In most cases, usually annual	Again, these bodies are technically advisory to the federal Minister, although they serve as vehicles for federal-provincial consultation. Essentially, they exist for the purpose of exchanging ideas, promoting research, etc. in their specialized areas.
	Public Health Engineering Epidemiology					
	Emergency Health Services					
	Maternal and Child Health					
	X-Ray Safety					
	Dental Health					
	Nutrition					
	Mental Health					
	Consequences of Congenital Anomalies					
B Welfare	Consequences of Congenital Anomalies Research	Deputy Ministerial	Intergovernmental regional	M.G.A., P.E.I., N.S., Federal observers	Annual	To discuss matters of regional interest, operation of joint training projects at Dalhousie, etc.
	Veneral Diseases Laboratory Service	Deputy Ministerial	Federal-advocory regional	Canada, All Provinces	Ad hoc	The Ministers have met 3 times in the last 4 years, mainly to discuss veneral diseases. But they have not been constituted as a continuing body.
	Maritimes Health Planning Committee	Ministerial	Federal-Provincial	Canada, All Provinces	Annual	To exchange information on welfare matters and advise the Minister.
	Ministers of Welfare	Deputy Ministerial	Federal-advocory regional	Canada, All Provinces	Annual	Informal discussion of mutual problems, in a meeting usually just before or after the National Council.
	The National Council of Welfare	Deputy Ministerial	Federal-advocory regional	Canada, All Provinces	Annual	To discuss and coordinate welfare measures to meet emergency situations.
	Deputy Ministers of Welfare	Deputy Ministerial	Federal-Provincial	Canada, All Provinces	Annual	To consider shared-cost programmes for fitness, discuss technical matters, etc.
	Directors of Emergency Welfare Services	Official	Federal-Provincial	Canada, All Provinces	Annual	To discuss programmes, etc.
	Committee on Fitness and Amateur Sport	Official	Federal-Provincial	Canada, All Provinces	Annual	Coordination of statistical research, etc.
	Meeting of Child Welfare Officials	Official	Federal-Provincial	Canada, All Provinces	Annual	Regional welfare matters, including training arrangements.
	Committee on Welfare Statistics	Official	Federal-Provincial	Canada, All Provinces	Ad hoc	To coordinate the Canada Pension Plan and the Quebec Pension Plan.
VI Industry and Trade	Maritime Provinces Welfare Association	Ministerial Deputy Ministers	Intergovernmental Regional	Nfld., P.E.I., N.S., N.B. Federal observers	Annual	The provinces take turns hosting this conference, which is composed mainly of officials although some Ministers may sit in. There is an exchange of views and some recommendations to the federal government. (One example is an invitation for federal department of industry to visit the provinces).
	Meetings to coordinate Pension Plans	Official	Federal-Provincial regional	Canada, Quebec	As required	The Ministers met in 1963, and 1965 the deputies met to discuss the Area Development Act. However, there is no continuing provision for consultation.
	Trade and Industry Council	Deputy Ministerial	Intergovernmental	All Provinces, federal observers	Annual	This group met in May on the subject of standards.
	Ministers and Deputy Ministers of Industry	Deputy Ministerial	Federal-Provincial	Canada, All Provinces	Ad hoc	
	Conference on Standards Council of Canada	Official	Federal-Provincial	Canada, All Provinces	Ad hoc	

Area of Government Activity

VI Industry and Trade (cont'd.)

VII Public Works - Housing

A Public Works

Organization, Committee or Conference	Level	Type	Membership	Periodicity	Description of Main Role
Tourist Conference	Ministerial	Federal-Provincial	Canada, All Provinces	Annual	Exchange of views on the tourist industry.
Canadian Travel Film Committee	Official	Federal-Provincial	Canada, All Provinces	Annual	Exchange of views on the tourist industry.
Meeting of Directors of Provincial Research Councils	Official	Interprovincial	Most provinces, federal observers	Annual	The Directors meet during the Conference of the Canadian Research Management Association. The Director of the Federal Industrial Research Division sits in. Views are exchanged, research coordinated.
Meeting of Deputy Ministers	Deputy Ministerial	Interprovincial	All Provinces, federal observers	Annual	To exchange information on mutual problems in the building industry. Provinces take turns as host.
Committee on Harbour Facilities for Fishing Industry in Atlantic Provinces	Official	Federal-Provincial Regional	Canada and Atlantic Provinces	Annual	Interested federal departments meet with provincial officials to discuss desirable work programmes.
Association of Canadian Fire Marshalls	Official	Quasi-Independent Association	Canada, All Provinces	Annual	This body has met for over 40 years. It exchanges views on fire prevention and control matters, and agrees on some recommendations.
Association of Fire Chiefs	Official	Quasi-Independent Association	Canada, All Provinces, municipal representatives	Annual	Not really a federal-provincial body. Rather, a pro- fessional society.
Fire Advisory Council	Official	Federal-Provincial	Canada, All Provinces	Annual	To exchange views, develop recommendations with regard to emergency fire measures. (Re-standardization of hose thread).
					No continuing federal-provincial bodies as such, but Ministers and Officials of the provinces and Canada do have contact during conferences of private organisations: The Canadian Good Roads Association - The Canadian Highway Safety Council.
					No formal consultative body as yet, although a federal- provincial conference on housing has been suggested. A federal team of Ministers and Officials did visit each province in the last year. Local project committees (federal-provincial - municipal) are formed from time to time.
Conference on Economic Statistics	Official	Federal-Provincial	Canada, All Provinces	Biennial	To exchange views and information on programmes and needs, and to jointly assess priorities and needs. Recommendations are made, generally to the Dominion Statistician and suggesting the provision of more information. It has sub-committees of an ad hoc nature.
Various specialised committees as follows: Agricultural Statistics Cattle Statistics Oil and Gas Statistics Fisheries and Forest Products Statistics Fisheries Statistics Telephone Vital Statistics Criminal Statistics Municipal Statistics Municipal Finance Statistics Automobile Accident Statistics Morbidity Statistics	Official	Federal-Provincial	For most of these, Canada and all provinces. Some also have outside representatives	Mainly annual	To explore needs and coordinate efforts in these specialized areas.

<u>Area of Government Activity</u> <u>or Conference</u>	<u>Level</u>	<u>Type</u>	<u>Membership</u>	<u>Periodicity</u>	<u>Description of Main Role</u>
<u>II Miscellaneous Areas</u>					
A Civil Service	Deputy Ministerial	Federal-Provincial	Canada, All Provinces	Annual	Exchange of information on personnel policy and practices.
B Emergency Measures	Official	Federal-Provincial	Canada, All Provinces	Annual	To discuss programmes with provincial coordinators.
	Official	Federal-Provincial	Canada, All Provinces	Twice yearly	Exchange of information.
	Official	Federal-Provincial	Canada, All Provinces	Ad hoc	To discuss changing requirements and technology in the field.
	Ministerial	Federal-Provincial	Canada, All Provinces	Ad hoc	Programme discussion at Ministerial level.
C Indian Affairs	Ministerial	Federal-Provincial	Canada, All Provinces	Ad hoc	A meeting was held in 1964, with a variety of provincial Ministers representing their respective provinces. There has been recent pressure from the provinces for another high level conference.
	Deputy Ministers Regional Officials	Federal-Provincial Regional	Canada and Que., Ont., Man., Sask., Alta., and B.C.	As required	Committees have been formed in each of the provinces listed for the purpose of discussing matters pertaining to the administration of Indians in the province concerned, arrange for cooperative action, etc.
	Official	Federal-Provincial Regional	Canada - Newfoundland	Ad hoc	As above.
	Official	Federal-Provincial Regional	Canada, most provinces	Ad hoc	Occasional meetings of officials to consider activities in these areas of service to Indians.
D Revenue	Official	Federal-Provincial Regional	Canada, Quebec	At least annual	To facilitate cooperation between the two income tax collection authorities on matters such as residence.
E Transport	Official	Federal-Provincial	Canada, All Provinces	Annual	
	Ministerial	Federal-Provincial	Canada, All Provinces	Ad hoc	These Ministers have met in the past on particular questions - such as constitutional amendment, although they are not constituted as a continuing body for consultation.
F Other	Ministerial	Federal-Provincial	Canada, All Provinces	Twice annually	Discussions and coordination of centennial activities. The bodies involved are not constituted as a continuing body, presumably will terminate once centennial activities are complete.
	Ministerial	Federal-Advisory Council	Canada, All Provinces,	Twice annually	
	Official	Federal-Provincial	Canada, All Provinces	Annual	To achieve coordination in names of geographical objects across the country.
	Official	Federal-Provincial	Canada, All Provinces	Ad hoc	Initiated by Department of Secretary of State.
	Official	Federal-Provincial	Canada, All Provinces	Two or three times a year	Initiated by Secretary of State.
	Official	Federal-Provincial	Canada, All Provinces	Ad hoc	Initiated by Secretary of State.

Addendum - August, 1968

The material on which the following inventory is based was gathered mainly during the first half of 1967. Hence, the inventory will be in some respects already out of date, although it should still serve as a reasonably accurate picture of the machinery for liaison which has been developed.

While it was not considered feasible to attempt to update the inventory at this time, it was felt that note should be taken of the following significant developments: The (continuing) Constitutional Conference - This is, in effect, the Plenary Conference of Prime Ministers and Premiers, but convened under a special name to carry out a particular task - to review the Constitution and determine what changes might be necessary or desirable. The first Constitutional Conference took place in February of 1968, and it was decided then that the Prime Ministers and Premiers should establish themselves as a continuing Constitutional Conference, which would meet as often as required to carry out a complete review of the Constitution. Sub-committees are to be created as required (see below). The following specific questions were included in the programme for the Constitutional Conference and its committees:

- official languages
- fundamental rights
- distribution of powers
- reform of institutions linked with federalism,
including the Senate and the Supreme Court of
Canada

- regional disparities
- amending procedure and provisional arrangements
- mechanisms of federal-provincial relations.

The Continuing Committee of Officials - This is a senior sub-committee of officials which reports to the Constitutional Conference and has the task of assisting the Conference in its work, including the coordination of research and staff work connected with the constitutional review. It is understood that all sub-committees of officials which may be formed to study particular aspects of the review will report to this Committee. (If any ministerial sub-committees are formed, these would have to report to the Constitutional Conference.) The Committee is composed of senior civil servants, frequently the Clerk of the Executive Council or his equivalent, from all governments. The first meeting of this Committee took place in May of 1968.

The Sub-Committee on Official Languages - This is the only sub-committee reporting to the Continuing Committee which has been formed at time of writing (August, 1968).

Secretariat of the Constitutional Conference - A Secretariat has been established to serve the Constitutional Conference, the Continuing Committee, and associated groups. It is connected to the Privy Council Office in the Federal Government for its general administration and budget, but is considered to be responsible to the Constitutional Conference and its Continuing Committee, in respect of its programme.

The Confederation of Tomorrow Conference - This was an interprovincial conference of first Ministers (with federal observers present) which was convened by Ontario in November of 1967, to discuss the state of the Canadian federation and the direction in which it might develop in future. It is not known whether another such conference will be called, but a continuing committee of first Ministers was created.

Interprovincial Continuing Committee of Premiers (Confederation of Tomorrow Conference) - The above mentioned conference created a committee composed of the first Ministers of four provinces, to meet from time to time and consider developments related to the subject matter of the Conference.

